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The enthusiasm for the implementation of regional autonomy has provided the impetus for regional governments to introduce various forms of new regulations which often disregard central government legislation. While Law No. 18, 1997 remains in force, many regional governments have begun to use the excuse of regional autonomy to ignore this central government law. Careful attention must be paid to the current situation, together with an effort to enforce central government legislation firmly. The central government has attempted this, but according to many in the regions, several central government laws on the implementation of regional autonomy are inconsistent or even in contravention of other higher legislation. For example, it is claimed that Presidential Decree No. 95, 2000, which revokes the authority of the kabupaten and kota over land matters, contravenes Article 11 Clause (2) of Law No. 22, 1999. Thus, in drafting their own regulations which are inconsistent with existing legislation, the regions seem to have learnt something from the central government's methods. Irrespective of these inconsistencies, the SMERU team has identified a worrying trend to revert to an excessive regulatory environment which will create a high cost economy. The burden of these numerous new local regulations will fall most heavily upon farmers, traders, small producers and consumers.

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**13. Submitting Official**

C. Stuart Callison, Chief of Party

**14. Telephone Number**

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*Field Report*

# **Regional Autonomy and the Business Climate: Three Kabupaten Case Studies from North Sumatra**

**Jakarta, May 2001**

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## **Research Team:**

**Syaikhu Usman**

**Ilyas Saad**

**Vita Febriany**

**Nina Toyamah**

**M. Sulton Mawardi**

**Hudi Sartono**

**Pamadi Wibowo**

**Sudarno Sumarto**

## SUMMARY

One clear power of local government as the autonomous government administration is the management of local revenues (*Pendapatan Asli Daerah*, PAD). Based on this power, local governments have always issued various local regulations (*peraturan daerah*, *perda*) regarding taxes, levies and other charges. In addition, local governments have also released various policies about business activities, especially through the regulation of markets and trade. In practice these local regulations and policies have tended to create a "high cost economy", disturbing the business climate, weakening competition and impeding local economic development.

The implementation of Law No. 22, 1999 on "Local Government" and Law No. 25, 1999 on "The Fiscal Balance Between the Central Government and the Regions", supported by the spirit of reform, has increased the level of enthusiasm for autonomy in the regions. Such enthusiasm on the part of local government has generally resulted in the creation of many more local regulations concerning taxes and levies. This tendency has been strengthened by the perception that the successful implementation of local autonomy will depend to a large extent upon local revenues.

The SMERU team conducted a study in the Province of North Sumatra to monitor the dynamics of the implementation of regional autonomy, and to assess its impact on the business climate. In addition to the provincial level of government, SMERU also visited three *kabupaten*: Karo, Simalungun, and Deli Serdang. These investigations revealed that the provincial government had not yet drafted any new regulations concerning regional taxes and levies, as it was still preoccupied with drafting the legislation regarding its own organizational structure. Furthermore, the provincial government was still waiting for the release of the technical regulations that will support the implementation of regional autonomy, many of which have not yet been released by the central government. It appears that the provincial government is reluctant to release local regulations, which lack clarity. If it were to become apparent that local regulations are in conflict with the legislation issued by the central government, the process of revision would be a considerable waste of time and money. At present, the provincial government plans to raise revenue by obtaining a share of the profits from those State Enterprises (BUMN) operating in the region, especially from the state plantation company, PT Perkebunan Nasional, and from special contributions from large private plantations. Plantation companies have always been the pride of North Sumatra, but have never been regarded as a significant source of local revenue because most of the relevant taxes, including value-added taxes, have been collected by the central government.

By contrast, following the release of the new policy on regional autonomy, the regional governments at the *kabupaten* level have begun to think seriously about ways to increase their local revenue. They consider that their financial capacity, especially their local revenue (PAD), is the key to the successful implementation of regional autonomy. Consequently, the *kabupaten* governments have been very active in creating many new local regulations concerning taxes and levies. The SMERU team found that each of the three *kabupaten* visited were at different stages in the process of formulating those regulations. Kabupaten Deli Serdang has already enacted new local regulations and is currently preparing for their implementation. Kabupaten Simalungun has already drafted local regulations that have already been ratified by the Local People's Consultative Assembly (DPRD) but have not yet

been listed in the government's Local Gazette. Meanwhile, Kabupaten Karo's executive branch is only at the stage of preparing its draft plan of local regulations.

While the stage of their implementation may vary, the general impression from this study is that all *kabupaten* and *kota* throughout North Sumatra are currently attempting to increase their local revenue through the creation of many types of taxes and levies. Within the next six months it is estimated that all these new regulations involving taxes and regional levies, will have been ratified and will be ready to be implemented in all *kabupaten* and *kota*. However, the SMERU team has found no significant evidence to this point of any steps by either the provincial or the *kabupaten* and *kota* governments to put in place policies to regulate trade in any particular commodity.

Local government officials give the following reasons for the formulation of new local regulations concerning taxes and levies:

1. The largest part of the General Allocation of Funds (DAU) received from the central government will be absorbed by routine budgetary expenditure. As a result, the income from local revenues needs to be increased significantly so that the development budget can be expanded.
2. Local governments have deliberately created as many new local regulations as possible, in order to capture all potential revenue within their region.
3. All local government offices (*dinas*) have been compelled to formulate their own strategies to increase local revenues. The 2001 Regional Budget allocation to each *dinas* will be based on the amount of revenue each contributes to the local revenue office.
4. Law No. 18, 1997 is no longer accepted in the regions, as it is not in harmony with the spirit of decentralization and regional autonomy. As a result, many of the levies which were previously abolished under Law No. 18, 1997 are now being reinstated.

The enthusiasm for the implementation of regional autonomy has encouraged local governments to introduce various kinds of new regulations, which often disregard central government legislation. While Law No. 18, 1997 remains in force, many local governments have begun to use the excuse of regional autonomy to ignore this central government law. Careful attention must be paid to the current situation, together with an effort to enforce central government legislation firmly. The central government has attempted this, but according to many in the regions, several central government laws on the implementation of regional autonomy are inconsistent or even in contravention of other higher legislation. For example, it is claimed that Presidential Decree No. 95, 2000, on "The National Land Agency", which revokes the authority of the *kabupaten* and *kota* over land matters, contravenes Article 11 Clause (2) of Law No. 22, 1999. Decree No. 95, 2000 was subsequently strengthened by Presidential Decree No.10, 2001 on "The Implementation of Local Autonomy in the Field of Land Affairs". Thus, in drafting their own regulations which are inconsistent with existing legislation, the regions seem to have learnt something from the central government's methods.

Irrespective of these inconsistencies, the SMERU team has identified a worrying trend to revert to an excessive regulatory environment that will recreate the high cost economy that existed during the New Order period. The burden of these numerous new local regulations will fall most heavily upon farmers, traders, small producers and consumers.

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# LIST OF ABBREVIATIONS

ABT	Surface Water	APBD	Regional Government Budget
APBN	Central Government Budget	APT	Ground water
			Directorate General for Regional
ASSR	Agriculture Sector Strategy Review	Bangdes	Development
	Tax on change of ownership of motor		
BBN-KB	vehicle	BCM	Bima Citra Mandiri
BKIA	Mother and Child Health Center	BPPC	Clove Markerting Boards
BUMN	State-owned enterprises	CPIS	Centre for Policy and Implementation
			Studies
CPO	Crude Palm Oil	Dati	Region
DAU	General Allocation of Funds	Depdagri	Department of Internal Affairs
Dirjen	Director General	Dispenda	Office of Regional Revenues
Ditjen	Direktorate General	DLLAJ	Transportation Office
DOC	One Day Old Chicken	DPRD	Regional House of Representatives
DRM	List of Potential Bidders	Gapki	The Indonesian Association of Palm Oil
			Producers
	Indonesian Rubber Enterprise		
Gapkindo	Association	HO	Hinder Ordonantie
IMB	Building Construction Permit	IMF	International Monetary Fund
Inpres	Presidential Instruction	Jabar	West Java
Jatim	East Java	Kalbar	West Kalimantan
	Regional Chamber of Commerce and		
Kadinda	Industry	Kalsel	South Kalimantan
Keppres	Presidential Decree	KGP	Kapas Garuda Putih
KK	Family Card	KKN	Corruption, Collusion and Nepotism
KSO	Operasional Joint Cooperation	KTP	Identity Card
KUD	Village Cooperative	LoI	Letter of Intent
Mendagri	Minister of Internal Affairs	MPR	People's Consultative Assembly
NJOP	Selling price taxable Items	NSRP	North Sumatera Regional Program
NTB	Western Lesser Sundas	NTT	Eastern Lesser Sundas
OKP	Youth Organizations	Otda	Regional Autonomy
PAD	Regional Revenues	PBB	Land and Building Tax
PBB-KB	Motor Vehicle Fuel Tax	PDAM	State-owned Drinking Water Company
PDRB	Regional Gross Domestic Product	Pemda	Regional Government
Perda	Regional Legislation	Persepsi	Monitoring of Economic Structure and
			Deregulation Program Reforms
PKB	Motor Vehicle Tax	PKS	Palm Oil Factory
PP	Government Regulation	PPh	Income Tax
PPN	Value-added Tax	PPN	State-owned Estate Company
PPS	Private Estate Company	PT	Public Limited Company
PU	Public Works	Pungli	Illegal levies
PUOD	Directorate General for General	Puskud	Center of Village Cooperative
	Administration and Regional Autonomy		
PWI	Organization of Indonesian Journalists	RAPBD	Bill of Regional Budget Plan
Raperda	Bill of Regional Legislation	Rp	Rupiah
RSS	Rubber Smoked Sheet	s/d	Up to
SDA	Natural Resources	SDM	Human resources
SetJen	Secretariat General	Setwilda	Regional Secretary
SHU	Dividend	SIM	Driver Licence

SK	Decision Letter	SPKT	Third Party Contributions
STNK	Motor Vehicle Licence	Sulut	North Sulawesi
SWK	Special Compulsory Savings	TA	Fiscal Year
t.a.d	Data not available	TBS	Palm Oil Kernels

# I. INTRODUCTION<sup>1</sup>

## 1. BACKGROUND

Throughout the period of centralized government under the New Order, local government officials tended to be merely the “instruments” of central government directives, without sufficient scope to exercise their own authority. As a result, local government officials believed that they were being constrained by the central government, and consequently each region aspired to become “the master of its own domain”. One opportunity for local governments to achieve this was through managing local revenues (*pendapatan asli daerah*, PAD). Consequently, the local governments issued nearly two hundred local regulations (*peraturan daerah*, perda) concerning taxes, levies, and other fees (CPIS, 1996). In addition, local governments also put in place various policies to regulate business activity, especially through the creation of non-tax barriers to trade. Such policies included the allocation of zones to control the sale of tea in West Java, a citrus fruit trading monopoly in West Kalimantan, the marketing of local produce through Village Co-operatives (KUD) in East Nusa Tenggara, and a prohibition on the marketing or transportation of raw cashew nuts from South Sulawesi. Similar policies were also put in place by the central government including the establishment of a cloves monopoly by the Cloves Marketing Board (BPPC) and livestock inter-island trade quotas.

The supposed aim of these policies was the protection of small farmers and producers. In practice, all these various local regulations and government policies were intended to raise local revenue and protect the economic interests of certain groups. This situation in turn created “a high cost economy” that distorted the business climate, weakened competitiveness, and impeded regional economic development. These policies drew extensive criticism from many quarters. As a result, the central government attempted to rectify this situation by releasing tax reform Law No. 18, 1997, which limited the kinds of taxes and levies that may be collected in the regions. As a result of the monetary crisis that occurred at the end of 1997, the Government of Indonesia signed a Letter of Intent (LoI) with the IMF on the 15 January 1998. This promoted a program of deregulation through the correction of all central and regional government policies that had previously distorted the economy, including the abolition of inter-regional trade restrictions.

The monetary crisis, which was then followed by the economic crisis, forced the central and regional governments to make every effort to implement both of the above measures. Various levies were abolished and those policies that had a negative impact on the market were abandoned. Both of these changes to government policy had a positive effect on the business climate, as well as improving farmers’ incomes. But on the other hand, local governments subsequently considered that these policy changes had reduced their available sources of income. Consequently, many local governments have demanded that Law No. 18, 1997 be amended by the central government. These demands have been further strengthened by the new policies on decentralization and regional autonomy as outlined in Law No.22,

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<sup>1</sup>The material in this report draws on sections of the paper “Otonomi Daerah dan Iklim Usaha” delivered at the conference on “Domestic Trade, Decentralization and Globalization” held in Jakarta, 3 April 2001, by The Partnership for Economic Growth (PEG) and The United States Agency for International Development (USAID) in collaboration with the Department of Industry and Trade (Deperindag). PEG is a USAID-funded Project with the Government of Indonesia. The views expressed in this report are those of the author and not necessarily those of USAID, the U.S. Government or the Government of Indonesia.

1999 on “Regional Government” and Law No. 25, 1999 on “The Fiscal Balance Between the Central Government and the Regions”. Subsequently, the central government accepted the complaints of the regions by approving Law No. 34, 2000 which amends Law No. 18, 1997. This new law provides wider opportunities for the regions to issue local regulations concerning taxes and levies, while (in theory) still setting certain limits through the application of various strict conditions.

The policy of decentralization and regional autonomy is intended to bring government closer to the people so that government services can be delivered more effectively and efficiently. However, governments that are open, responsible and fair can only achieve this. As far as economic activities are concerned, local governments need to make every effort to promote their own region to attract investment and stimulate trade. However, so far there is no guarantee that the policy of decentralization and regional autonomy will actually encourage local governments to adopt such a position and act accordingly. On the contrary, there is real concern that local governments will return with renewed zeal to the tactic of increasing local revenue through various taxes and levies. There is also concern about the possibility of local governments releasing policies that discriminate against individuals from outside the region for the sake of the local community and its inhabitants (the *putra daerah* issue). Such a situation is a cause of real concern because it threatens national unity both in a political and an economic sense, for example, the policy of free trade between regions and Indonesia’s existence as a single unified market entity.<sup>2</sup>

As part of SMERU’s research into the initial phase of the implementation of decentralization and regional autonomy under Law No. 22, 1999 and Law No. 25, 1999, several field studies have been carried out specifically to obtain information on the following issues:

1. Local government policy concerning the implementation of extended local authority, especially those policies related to local taxes, levies and other charges (both formal and informal) and other policies relevant to the business climate such as licensing and the regulation of local trade and markets.
2. The views of local government on the size of the General Allocation of Funds (*Dana Alokasi Umum*, DAU) and their strategies to increase their income through available sources of local revenue (PAD) such as local taxes and levies.
3. The views and opinions of various economic actors and other interest groups within society on the impact of local government policy on the business climate together with its implications for trade and investment, and especially on the movement of goods and services.

This report is based on fieldwork by the SMERU team in North Sumatra between 18 February and 3 March, 2001. The team visited three kabupaten, Karo, Simalungun and Deli Serdang. (North Sumatra is one of nine provinces that will be visited throughout the course of this study, covering a geographic spread that includes regions from Western Indonesia, Java and Eastern Indonesia.)

Information was obtained through interviews with officials in the Governor’s Office and the Office of the Bupati, including the Governor, the Bupati and their staff, the heads of various bureaus and sections (legal affairs, organizational affairs, government administration, finance

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<sup>2</sup> The notion of Indonesia as a “single unified market” is one of the binding elements of the unitary state of the Republic of Indonesia.

and economic affairs). In addition, the team also contacted senior officials in various “autonomous agencies” (*instansi otonom*)<sup>3</sup> at the province and kabupaten level, including the local People’s Representative Assembly (DPRD), the Industry and Trade Office (Dinas Perindustrian dan Perdagangan), the Agriculture and Food Crops Office (Dinas Pertanian Tanaman Pangan), the Plantations Office (Dinas Perkebunan), the Local Revenue Office (Dinas Pendapatan Daerah), and the Regional Planning and Development Board (Bappeda). For additional information, the team also visited those “vertical agencies” (*instansi vertikal*)<sup>4</sup> still in existence, such as the Regional Office of Industry and Trade (Kanwil Perindustrian dan Perdagangan) and the Statistics Indonesia Office (Kantor BPS). Other economic actors and observers interviewed included officials from the local Chamber of Commerce and Industry (Kadinda), the Association of Indonesian Rubber Producers (Gapkindo) and the Association of Indonesian Palm Oil Producers (Gapki), traders at various levels, businessmen, transport drivers, farmers and fishermen, editors and journalists of local newspapers, NGO leaders, and the teaching staff of local institutes of higher education.

## 2. REGIONAL OVERVIEW

The province of North Sumatra is located on the mainland of Sumatra and the adjacent islands of Nias and the Batu-Batu chain. It stretches from east to west across Sumatra, covering an area of 71,700 km<sup>2</sup>, or 3.7% of Indonesia’s entire landmass. Based on location and natural environment, North Sumatra can be divided into three distinct zones: the west coast, the central uplands and the east coast. Lake Toba is the largest fresh water lake in Indonesia and has become a significant tourist attraction in the region.

In 1999, North Sumatra’s total population was approximately 11.9 million, making it the fourth most heavily populated province in Indonesia after the three Java provinces. With a population density of around 167 per km<sup>2</sup>, it is the most densely populated province in Sumatra after Lampung.

Administratively, North Sumatra consists of thirteen kabupaten, six kota, 252 kecamatan, 4,815 desa, and 463 kelurahan. Based on area, Tapanuli Selatan is the largest kabupaten in the province while Karo is the smallest. The other two kabupaten in the study area (Simalungun and Deli Serdang) are in the middle range. In terms of population, Kabupaten Deli Serdang has the largest number of inhabitants and the greatest density of all the other kabupaten in the province.

North Sumatra is well known throughout Indonesia as a plantation center. Plantation enterprises have existed in the province since the Dutch colonial era and are concentrated in the region near the border with the province of Riau covering Kabupaten Tapanuli Selatan, Kabupaten Labuhan Batu, and Kabupaten Asahan. The main plantation commodities produced include palm oil, rubber, coconuts, coffee, cacao and tobacco. The production of coconuts, rubber and coffee is mostly derived from small-holders, while palm oil and cacao are mainly from large plantation companies (see Table 2). North Sumatran palm oil and

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<sup>3</sup> The term *instansi otonom* is applied to all those government offices that are under the administrative authority of local government (province, kabupaten or kota) and which are funded from the Regional Budget (*Anggaran Pendapatan dan Belanja Daerah*, APBD).

<sup>4</sup> The term *instansi vertikal* is applied to those government offices that are under the administrative authority of the central government and which are funded from the central government’s State Budget (*Anggaran Pendapatan dan Belanja Negara*, APBN), but which operate within the particular province, *kabupaten* or *kota*: for example, the Kantor Wilayah (Kanwil) at the province level, and the Kantor Departemen (Kandep) at the *kabupaten* and *kota* level.

rubber production make up 65% and 30% respectively of Indonesia's total production of these two commodities.

**Table 1. Total area, population and government administration in North Sumatra**

Region (Province/Kabupaten)	Total area (Km <sup>2</sup> )	Total population (person)	Population density /km <sup>2</sup>	Number of Kabupaten/ Kota	Number of Keca- matan	Number of Desa/ Kelurahan
North Sumatra Province	71,680	11,955,400	167	13/6	252	4,815/463
-- Kabupaten Karo	2,127	290,000	98	-	13	249/9
-- Kabupaten Simalungun	4,369	877,200	201	-	21	195/12
-- Kabupaten Deli Serdang	4,339	1,963,100	452	-	33	620/17

Sources: Statistics Indonesia, 1999; Sumatera Utara Dalam Angka, 1999

**Table 2. Total area and production from plantations in North Sumatra, 1999**

Commodities	Planted areas			Production		
	Small Holder		Total	Small Holder		Total
	Ha	%	Ha	Ton	%	Ton
Rubber	307,606	63%	486,109	261,127	62%	163,166
Palm oil	164,335	23%	706,065	1,701,069	49%	1,756,553
Copra	135,917	96%	140,958	105,930	97%	3,738
Coffee	37,381	100%	37,465	22,451	100%	104
Cocoa	24,484	41%	59,526	15,864	31%	35,915

Sources: Statistics Indonesia, 1999; Sumatera Utara Dalam Angka, 1999

Although the total area and production levels are relatively small, these plantation commodities are also produced in the three *kabupaten* visited and remain important crops in the area. Kabupaten Deli Serdang and Simalungun are also the rice basket areas of North Sumatra, with 40% of the province's total rice production coming from these two *kabupaten*. In addition both *kabupaten* also produce a variety of secondary crops such as peanuts, soybeans, and mung beans. Kabupaten Karo is the main producer of corn and various other crops. Fruit and vegetables from this *kabupaten* have become a key export commodity for North Sumatra, especially to Singapore and Malaysia.

The waters of North Sumatra are also a rich source of fish. Most *kabupaten* have access to the coast, and in 1998 fish production in North Sumatra reached 322,000 ton, the largest of any single province in Indonesia. North Sumatra already possesses a satisfactory infrastructure to support economic development. The road network, for example, already extends into rural village areas. Of 23,000 km of roads in the province, 90% consists of *kabupaten* and *kota* roads. Ports for overseas and inter-island shipping exist at Belawan, Tanjung Balai, and Kuala Tanjung, while the province's main airport is Bandara Polonia in Medan.

Bearing in mind that a large part of North Sumatra's primary produce (plantations, food crops, fishing) consists of major export commodities, the province occupies a very important

place in the Indonesian economy. Guaranteeing the safety and security of the business climate, along with the provision of adequate support facilities, are vital conditions that must be strongly supported. In this way, manufacturing industry and markets can continue to function, to expand and increasingly be able to compete. In turn, the income of farmers and producers will hopefully rise, thereby encouraging them to maintain production levels.

## II. THE IMPLEMENTATION OF REGIONAL AUTONOMY<sup>5</sup>

### 1. AN IMMEDIATE OR A GRADUAL PROCESS?

In general the implementation of regional autonomy is regulated by Law No. 22, 1999 on “Local Government” and Law No. 25, 1999 on “The Fiscal Balance Between the Central Government and the Regions”. These two laws were to take effect by no later than May 2001, two years after they were passed into law. Subsequently, MPR Decision No. IV/MPR/2000 recommended that: a) those regions that were able to implement autonomy completely could begin the process on 1 January 2001 as reflected in the State and Regional Budgets; while b) those regions that were not yet completely ready could begin the process in stages.

In practice, however, it is no longer possible to distinguish between those regions that have implemented the process completely and those that are carrying out the process in stages. On the one hand, according to Law No. 25, 1999, from a budgetary perspective all regions have already fully implemented regional autonomy. On the other hand, according to Law No. 22, 1999, from the perspective of government services apart from finance, none of the regions have fully implemented autonomy. With the release of Presidential Decree No. 181, 2000 on “The General Allocation of Funding to Provinces, Kabupaten dan Kota in Year 2001”, from the budgetary perspective, regional autonomy can be said to have already begun from 1 January 2001. However, as far as the implementation of Law No. 22, 1999 is concerned, many regions are still at the preparation stage, including the Provincial government of North Sumatra and all the kabupaten and kota level governments within the province. These local governments are still studying the formulation of the powers that they have been assigned and are preparing the organizations that will be under their authority. In practice, government services in the regions, at the provincial level as well as the kabupaten and kota level, are generally still being carried out by two kinds of government agency: the “autonomous agencies” (*instansi otonom*) in the form of offices (*dinas*), boards, local secretariats (*setda*), or council secretariats (*setwan*), and those “vertical agencies” (*instansi vertikal*) in the form of regional offices (*kanwil*) and departmental offices (*kandep*).

In the past the “vertical agencies” were the instruments of the central government in the regions carrying out highly centralised policies. Now many of their tasks and powers have now been devolved to the regions (to the province, kabupaten, or kota). According to Article 8, section (1) of Law No. 22, 1999, the process of devolving these powers must be accompanied by the transfer of funding, infrastructure and human resources. So far, the transfer of personnel - especially from those agencies that have been dissolved - and funds in the form of the General Allocation of Funds (DAO) have been carried out. But the surrender of infrastructure in the form of land, buildings, and equipment appears to require further discussion and is awaiting additional arrangements between the central government and the regions.

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<sup>5</sup> For a more detailed account of regional autonomy in North Sumatra, see SMERU’s forthcoming report “Pelaksanaan Desentralisasi dan Otonomi Daerah: Kasus Tiga Kabupaten Di Propinsi Sumatera Utara” (in preparation).

## 2. THE ORGANIZATION OF LOCAL GOVERNMENT

Provincial government officials give the impression that they are still hoping that autonomy will begin at the provincial level and not directly at the *kabupaten* and *kota* level.

According to a member of the governor's staff, initially the *kabupaten* and *kota* were very enthusiastic about carrying out all of their powers in the expectation of receiving a large amount of funding commensurate with the scope of their authority. But after they became aware of the limited amount of the DAU the *kabupaten* and *kota* have become apprehensive. Several provincial officials even predicted that within six months many *kabupaten* and *kota* will surrender their authority to the province. Only then will relations between the province and the *kabupaten* and *kota* administrations become clear. At present the position of the province in relation to the *kabupaten* and *kota* is rather vague, because the *kabupaten* and *kota* governments have a reciprocal relationship directly with the central government. In many of their activities, provincial government officials believe that the *kabupaten* and *kota* are tending to position themselves as subordinates of the "center". This suggests the need for a clearer set of relationships between each of the layers of government: between the province and the central government, the province and the *kabupaten* and *kota*, and between the central government and the *kabupaten* and *kota*.

So far every agency of government at the provincial level has been asked to draw up a list of its central tasks. Those *kanwil* and *dinas* that are to be merged have discussed various alternative strategies. The results of these discussions were submitted to the Provincial Regional Secretariat's Organizational Affairs Bureau (Biro Organisasi Setda Propinsi). Following further discussions in larger forums, a North Sumatra Provincial Government organizational plan was completed which was to be submitted to the province-level DPRD in March. The new organizational structure was expected to be implemented at the latest by May this year, which is the time limit set by Law No. 22, 1999.

Of the three *kabupaten* visited by the SMERU team, each are at a different stage in the process of reorganising local government. In Kabupaten Karo the local executive has produced a draft set of regulations, but these had not yet been submitted to the DPRD. This delay is a result of local political problems which caused the installation of the new Bupati to be postponed for eight months. The recently-elected Bupati, a former businessmen, officially began his duties in December 2000. His business background has influenced the planned organizational structure of local government (see Table 3), which he wishes to see streamlined to concentrate attention on those functions of local government which will enhance business activity in the region. The success of these attempts to reduce the size of the bureaucracy and its economic orientation still depends upon the deliberations of the DPRD.

In Kabupaten Simalungun regulations on the structure of local government had already been ratified by the DPRD but had not yet been established by law in the Local Gazette. Under this new structure of local government, the total number of work units (*dinas*, *badan* and *kantor*) have been reduced from 39 to 28 (see Table 3). After the 1996/97 financial year, Simalungun had been one of the trial areas for regional autonomy centered on the *kabupaten*, under Government Regulation No.8, 1995 as decided by Law No. 5, 1974. During this trial the Kabupaten Simalungun local government had already reduced its organizational structure down to 24 *dinas*, 12 *badan* and three *kantor*, a total of 39 work units. However, in practice the Simalungun local government had faced serious problems because the transfer of

authority by the central government had not been matched by the transfer of adequate funding. This problem forced the local government to reduce the size of its administrative structure even further.

**Table 3. Type and number of *kabupaten* government organizations in North Sumatra**

	Karo	Simalungun	Deli Serdang
1. Technical agencies ( <i>Dinas</i> )	13	15	18
2. Boards ( <i>Badan</i> )	2	5	7
3. Offices ( <i>Kantor</i> )	4	8	4
Total	19	28	29

Source: Regional Secretariat Organizational Affairs Bureau (Bagian Organisasi Setda) in each kabupaten.

Meanwhile in Kabupaten Deli Serdang, local regulations on the structure of local government have already been established as law in the Local Gazette. The administrative structure has been formally established and the acting leadership of each unit of government has been appointed, except for the Dinas of Land Affairs (*Pertanahan*).<sup>6</sup> However, in the execution of the day-to-day tasks of government, work is generally proceeding as it did before reorganization occurred. The *Kandep* and *Cabang Dinas*, which until now have been viewed respectively as agencies of the central and the provincial government, are still carrying out their within the old administrative framework, even though the Bupati has already assumed responsibility for their work.

During this process of reorganization, the Kabupaten Deli Serdang government has adhered to a policy of trying to provide positions for all civil servants in the region. This is evident, for example, in the agriculture field where the following five *dinas* have been formed: 1) food crops and horticulture; 2) plantations; 3) forestry; 4) livestock and animal husbandry, and 5) fisheries and maritime affairs. Meanwhile, the following three *dinas* have been formed in the public works area: 1) road construction and maintenance (Bina Marga); 2) water and irrigation; and 3) human settlements, regional development and mining. A reduction in the size of government administration is also apparent from the fact that a separate special *dinas* to manage mining has not been formed since there is only limited potential for mining within the region.

### 3. CIVIL SERVICE ADMINISTRATION

The impression that the provincial government is still hoping that the regional autonomy process will begin at the provincial level is still apparent in its handling of civil service administration. This is reflected in a recent letter sent by the North Sumatra Provincial Secretariat to the Minister for the Empowerment of State Apparatus and the Minister of Finance, which raised two issues concerning civil service salaries and appointments. Regarding salaries, the provincial government explained that the civil service budget

<sup>6</sup> The Head of the Dinas of Land Affairs has not yet been appointed because of certain technical problems. This has nothing to do with Presidential Decrees No. 95, 2000 and No. 10, 2001 that returned this field once more to the central government's authority. Under Law No. 22, 1999 responsibility for land matters had been placed under the jurisdiction of the kabupaten and kota. A Presidential Decree, even both of them, cannot amend such a Law. Kabupaten Deli Serdang will shortly go ahead with the appointment of the Head of the Dinas of Land Affairs. Such an attitude is required if adherence to and enforcement of existing legislation is to be maintained.

authorised under the DAU to every province, *kabupaten* and *kota* will prevent the transfer of civil servants between regions. The provincial government suggests that civil service salaries be removed from the DAU and that these continue to be paid directly by the central government so that there will be greater opportunities for transfers between the various levels of government.

The second issue concerned the authority of the *bupati* and *walikota* to appoint and dismiss civil servants as authorized by Government Regulations No. 84, 2000 and No. 96, 2000. The provincial government is concerned that this power will have several adverse effects: 1) the norms and standards that apply over decisions relating to promotions will be easily thwarted increasing the opportunities for corruption, collusion, and nepotism (KKN); 2) the central and provincial government will be unable to control civil service administration, especially in matters related to promotions; and 3) the transfer of officials between regions will become difficult to implement. The provincial government proposes returning to a system of authority over civil service appointments that is very similar to the old system where promotions to Level IVc to IVe are decided by the president after receiving approval from the State Civil Service Board (Badan Kepegawaian Negara, BKN) on the recommendation of the governor.

The preparations for the amalgamation of the *instansi vertikal* with the *instansi otonom* have already been completed by local governments throughout North Sumatra. An inventory of civil service personnel, from both the “vertical” and the “autonomous” agencies, has been completed by both the provincial government and the three kabupaten governments visited by the SMERU team. Local government has also drawn up a plan of its staffing and echelon requirements based on the proposed administrative structure that is being formulated. So far the implementation of autonomy from the perspective of the civil service is still waiting for the formation of this new administration structure. Except for the transfer of six officials from former *kanwil* and *kandep* that have been liquidated, civil servants from other “vertical” agencies are still carrying out their duties, even though their salaries have been transferred directly to local government through the DAU. In Kabupaten Deli Serdang, although the new structure has been formed, officials in “vertical” agencies are still performing their duties as usual in the respective agencies.

The issue of “*putra daerah*”<sup>7</sup> has affected the regional autonomy process, especially in *kabupaten* local government circles. This issue has had a significant effect in certain “vertical” agencies to the point where some officials have been suffering from psychological stress. Local government officials at the kabupaten level admit that *putra daerah* demands exist but claim that such demands come from the wider community where there is the expectation that more attention will be paid to the interest of local people. In Kabupaten Simalungun, for example, this is closely connected to the local expression *ahap*, which means fully appreciating or understanding the local community without however too close a connection to ethnic origins. Bearing in mind the variety of ethnic groups in North Sumatra, demands based simply on ethnicity are unlikely. Most importantly, local officials believe that the process of appointing officials should be conducted in an open manner and should comply with this *ahap* concept. In dealing with the *putra daerah* issue, local government will continue to be guided by Government Regulations No. 84, 2000 and No. 100, 2000 which assert that the appointment of officials must be in accordance with career level, education, rank, and echelon, and in addition the opinion and policy of the Bupati.

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<sup>7</sup> The term “*putra daerah*” is difficult to translate but means literally “sons of the region”. It refers to the movement to promote the interest of those who come from a particular area or ethnic group over those who are considered to be outsiders.

#### 4. LOCAL REVENUE AS A SUPPLEMENT TO THE LIMITED DAU

Through Presidential Decree No. 181, 2000, the central government has dispersed the General Allocation of Funds (DAU). Most local governments, particularly at the province level, believe however that the DAU is only sufficient to meet the requirements of their routine budget, in particular civil service salaries. This has strengthened the belief in the regions that the capacity to implement autonomy is “very dependent upon PAD”. Regional autonomy policy based on Law No. 22, 1999 has given greater administrative authority to local government, while the DAU distributed to the regions according to Law No. 25, 1999 is only 25% of the total 2001 State Budget (APBN) revenues. This means that the remaining 75% has been retained under the control of the central government. Accordingly, it is apparent that the implementation of Law No. 22, 1999, which asserts that the administrative authority to be surrendered to the regions under the decentralization process must be accompanied by the transfer of adequate funding, has apparently not yet fully been adhered to. Furthermore, many local officials contend that the size of the DAU is less than the total amount of State Budget funds usually allocated to the regions before the implementation of Law No. 25, 1999. So far it is of course as yet unclear how much more of the State Budget funds will be used in the interests of the regions, because the relevant government regulations (PP), for example on “deconcentration” powers<sup>8</sup> and delegation of duties<sup>9</sup>, have not yet been issued by the central government.

As a result, many local governments have been pushed into creating or increasing various sources of local revenue, both in the form of taxes and levies. Neither local governments nor the community in the provinces, *kabupaten* and *kota* clearly wish to see their region eliminated or amalgamated because they are regarded as incapable of implementing autonomy. Consequently, funds from local revenue are believed to be necessary to supplement the low level of the DAU. The stringent efforts of local government to create and increase local revenue will diminish if they know that their region will be receiving further financial assistance from “deconcentration” funds, funds from the delegation of tasks, Special Allocation Funds (DAK), a share of the funds from central government taxes (such as income tax and Value-added Tax that the regions are fighting to obtain, a share of the profits from State Enterprises (BUMN),<sup>10</sup> and various other funds.

At the village level, discussions of financial problems bear a certain resemblance to those occurring at the province level and the *kabupaten* and *kota*. From 1969 to 1999 *desa* and *kelurahan* throughout Indonesia obtained an allocation of funds through Inpres Desa, also known as the Village Development Assistance Program (Bangdes). The total assistance per village steadily increased throughout this period, from Rp100,000 in 1969/70, Rp450, 000 in 1979/80, Rp1.5 million in 1989/90, to Rp10 million in 1999/2000. For over thirty years village officials have become accustomed to dealing with these funds, even though not all of the funds have reached the village level. In 1999/2000 the estimated Bangdes funds allocated

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<sup>8</sup> “Deconcentration” is the delegation of authority from the central government to the Governor as the representative or instrument of the central government in the region.

<sup>9</sup> “Tugas Pembantuan” refers to the procedure whereby the central government delegates certain tasks to local government level accompanied by appropriate funding.

<sup>10</sup> Ketetapan MPR No. IV/MPR/2000 declares that “for those regions with limited natural resources, financial equalization [perimbangan keuangan] will be undertaken by paying attention to the possibility of obtaining profits from the State Enterprises in the region concerned and a share of the income tax from companies that are operating.” The Province of North Sumatra and several other regions with limited natural resources, feel that they have been treated unfairly by Law No. 25, 1999 which only arranges the financial balance [mengatur keseimbangan keuangan] between the central government and the regions on the basis of natural resources. Local government in North Sumatra hopes to obtain income from the plantation enterprises (state-owned and private) operating in the region.

for Kabupaten Simalungun, for example, totalled Rp2.51 billion, or Rp10 million for 251 villages. If no replacement is found for these funds there is a strong possibility that every village will try to create their own sources of income.

For those villages in Kabupaten Simalungun that are now officially termed *nagori*,<sup>11</sup> it seems this has become a reality. This has become apparent with the release in Kabupaten Simalungun of Local Regulation No.10, 2000 on “The Formation, Abolition and Amalgamation of Nagori”, and Local Regulation No.17, 2000 on “Nagori Budgets”. With these local regulations, the *nagori* possess the formal legal framework to extract charges on every economic activity or business taking place within their territory. The Head of the Village Community Development Office (PMD) explained that a number of *nagori* classified as poor have already prepared a list of taxes (*pemungutan*) for oil palm plantations in their area.<sup>12</sup>

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<sup>11</sup> The *nagori* is the legal community entity (at the village level) under the kabupaten possessing the authority to arrange and organize the interests of the local community as recognized by the system of National Administration.

<sup>12</sup> For further explanation on this see Chapter 3, especially on Kabupaten Simalungun.

### III. REGIONAL LEVIES

#### 1. THE PROVINCIAL LEVEL

When the SMERU team visited the Provincial Bureau of Legal Affairs in North Sumatra, the provincial government had not yet formulated its draft legislation to increase local revenue from taxes and levies. Instead, the local government was still preoccupied with drafting legislation about its own organizational structure. Furthermore, the North Sumatra provincial government was also cautious about taking further steps to draft the new legislation because the technical guidelines on implementing Laws No. 22 and No.25, 1999 were not yet available from the central government. At the time of SMERU's investigations, the central government had still not released or fully prepared many of the government regulations relating to regional autonomy. In addition, the Provincial Bureau of Legal Affairs in North Sumatra had not had sufficient time to study the new Law No.34, 2000. The North Sumatra provincial government does not wish to create further repetitive local regulations. Enacting local regulations, which ultimately contradict central government legislation or regulations, will merely require further changes to local regulations costing both time and money.

However, this does not imply that the North Sumatra provincial government does not need additional budget revenue. The General Allocation of Funds (DAU) from the central government to the provincial government has amounted to only Rp264.4 billion for 2001, or 33% of the Draft Regional Budget (RAPBD) for the province. The North Sumatra provincial government has drawn up an RAPBD for 2001 of Rp804.3 billion. It is estimated that Rp512.7 billion (63.7%) is needed for routine budget expenditures and a further Rp291.5 billion (36.3%) is required to cover the cost of development expenditure.

Local revenue (PAD) is one of the primary sources of revenue for the RAPBD. For the year 2001, the North Sumatra provincial government is aiming to raise Rp357.8 billion or 44.5% of its budget from local revenue. Local taxes are the most prominent component of PAD, contributing 93.5% of the total. These are generally derived from the Motor Vehicle Registration Tax and the Change of Motor Vehicle Ownership Tax. Local levies only contribute 4.5% of PAD, and these are obtained from three main sources: the Health Care Levy, the Motor Vehicle Road Worthiness Levy, and Retail and Wholesale Distribution Levies. Local Regulation No.15, 1998 on "The Sale of Agricultural Production", has put in place levies associated with agricultural production, which only contribute 0.13% of PAD. Under this regulation crop seed, livestock sperm, fingerlings, and seedlings are all potential targets for levies by the local government.

In order to increase PAD, the North Sumatra provincial government is attempting to gain additional funds from the profits of the state plantation company, PT Perkebunan Nasional (PTPN), and special contributions from the private plantation company, Perusahaan Perkebunan Besar Swasta (PPBS). While plantation companies have always been the pride of North Sumatra, they have not yet made any significant contribution to local government revenue. These companies, especially the PTPN, are managed by the central government, and all profits and subsequent taxes must be sent to Jakarta. The provincial government is currently attempting to obtain a proportion of the shares in these state plantation companies.

While the North Sumatra provincial government has not profited directly from the plantation sector, the commodities produced in this industry have been the target of various levies, at the

both the local (*kabupaten*) and the central levels of government. Levies are imposed on the plantation industry starting at the production level, through to distribution and marketing of their products. According to the latest inventory released by the management of the Association of Indonesian Rubber Producers (Gapkindo) in North Sumatra, there are at least nine kinds of official levies imposed on rubber commodities (see Table 4).

**Table 4. Types of official levies on rubber commodities in North Sumatra**

Activities	Types of levies	Tariff and location	Remarks/Problems
Production support	1. Land and Building Tax	Rp60-130 thousand/ha	Tax valuation too high, annual increases
	2. Street lighting Tax	10% of total electricity capacity used, in certain <i>kabupaten/kota</i>	Tax base too high. Also applied to electricity generators installed in the premises.
	3. Ground and Surface Water Levies	Rp2-5.4 million/month	
	4. <i>Hinder Ordonantie</i> Tax	Rp4.2 million/year in Deli Serdang Rp1.75 million/renewable	
Processing	5. Fees for taking Effluent Samples	Rp450 thousand/sample, 3 samples/month in South Tapanuli	The official charge from the Department of Health Laboratory is only Rp44 thousand/sample.
Marketing	6. Market Levies	Rp6/kg in Asahan Rp20/kg in Langkat Rp3/kg in Deli Serdang	
	7. Compulsory Contributions from Plantation Estates	Rp10/kg in Asahan	
Others	8. Levies on the logging or use of Rubber Timber	Rp300/m <sup>3</sup> in Deli Serdang	
	9. Compulsory Third Party Contributions	Voluntary at provincial level	
	10. Levies from the Department of Manpower		

Sources: Gapkindo North Sumatra, 2001.

Apart from official levies, rubber producers are also the targets of unofficial charges, primarily through requests for assistance from various local youth organizations. Furthermore, many private international shipping agents charge up to US\$20 per document to expedite exports documentation. At the beginning of 1997, it was estimated that the size of the levies imposed on rubber producers amounted to 8% of the total cost of production.

The rubber manufacturing companies interviewed by SMERU, suggested that the various levies and licensing fees which have been until now obligatory costs for businesses, have only been imposed to burden these companies. The provincial government and the local DPRD do not want to listen to or to consider the opinions and requests of producers. Decisions about various regulations have been taken in a one-sided fashion while there has been insufficient protection guarantee by local government to this business sector.

Apart from the plantation sector, fisheries are also subject to special levies imposed by the North Sumatra provincial government. Local fishermen are primarily opposed to two kinds of levies:

- a) In January 2001, the Governor of North Sumatra released Decree No. 511.2/000/k/2001, establishing a basic price for the collection of levies of fish sold through auction in North Sumatra. Based on this price, fishermen are now forced to pay a levy of 5% for each kilogram of fish sold.
- b) The provincial government planned to form a single administrative system (Samsat) for fisheries in order to increase the efficiency of collecting levies regulated by the Local Regulation No.7, 1999, on "Wholesale and Retail Levies", and Local Regulation No.6, 1999, on "Shipping Vessel Sea Worthiness Inspection". The North Sumatra provincial government is also planning to revise Local Regulation No.7, 1999 and to increase the rate of the levy for each kilogram of fish sold, from Rp25/kg to Rp75/kg. This increase is so that the planned Samsat office will be able to make a greater contribution to the Local Treasury.

These endeavors have been rejected by local entrepreneurs because they claim it will increase production cost and will eventually reduce their competitiveness with fishing industries in other regions, and above all with foreign businesses such as those in Thailand.

## **2. THE KABUPATEN LEVEL**

Unlike the provincial government in North Sumatra, the local *kabupaten* have been considering ways to maximize the increase of local revenue ever since the implementation of the new policies on regional autonomy began. They have been extremely aggressive in searching for sources of local revenue despite the implementation of these policies varying between regions. Several *kabupaten* have already issued or processed new local regulations, while others are still at the stage of assessing the economic potential of those business activities that can be targeted for levies or taxes. Of the three *kabupaten* visited by the SMERU team, Kabupaten Deli Serdang is the only one to have already ratified their local regulations. Kabupaten Simalungun is already at the stage of ratifying their local regulations, however these have not been officially listed in the Local Gazette. Meanwhile in Kabupaten Karo the executive branch of the local government is still formulating the draft legislation.

Although the level of preparation varies, the general impression remains that the *kabupaten* and *kota* governments throughout North Sumatra are aggressively pursuing strategies to increase local revenue through local taxes and levies. Within the next six months it is estimated that new local regulations on taxes and levies will have been both issued and implemented in all *kabupaten* and *kota* in the region.

In contrast, the SMERU team have noted that until now, not one of the *kabupaten* visited by the team have issued or implemented any policies to regulate trade in any particular local commodities. The *kabupaten* governments are still allowing local business people to control and regulate market mechanisms.

### **(i) Kabupaten Karo**

When the SMERU team visited Kabupaten Karo, the Bupati and the Deputy Bupati had only been in office for three months. The process of appointing the Bupati had been delayed by

eight months due to accusations of money politics', which ultimately resulted in the local DPRD building being deliberately burnt down. Initially, the central government (that is, the Ministry of Home Affairs) stated that the election of the Bupati was not in accordance with the law and consequently the process had to be repeated. However, following pressure from various interest groups, the elected Bupati and the Deputy Bupati were eventually installed. Due to this delay, various government activities were affected, especially those related to the preparation for implementation of regional autonomy.

**Table 5. Types of local taxes and levies in Kabupaten Karo still in force \***

<b>Local Taxes</b>			
1.	Entertainment Business Tax	4.	Street lighting Tax
2.	Advertisements Tax	5.	Exploitation and processing of C Mining activities Tax
3.	Hotels, Restaurants, and Coffee shops Tax	6.	Ground and Surface water Tax
<b>Local Levies</b>			
1.	Market Levy	9.	Health Service Levy
2.	Livestock slaughter houses Levy	10.	Sanitation and Cleaning Service Levy
3.	Transport Route Permit	11.	Sales of Alcoholic Beverages Levy
4.	Transportation Terminal Levy	12.	Recreation and Amusement Park Levy
5.	Morgue and Cremation Service Levy	13.	Cost of printing ID cards and Civil Registration Document Levy
6.	Parking Levy	14.	Sale of Local Produce Levy
7.	Building Permit Levy	15.	Exploitation of Local Natural Resources Levy
8.	Disturbance/Noise Levy		

Notes: \* - All these taxes and levies still refer to Law No. 18, 1997, and have not been amended in accordance with Law No. 34, 2000.

Amendments to local regulations regarding the above taxes and levies have been drafted. The revisions have focused especially on issues related to the legal basis and the scale of the tariffs

Sources: Legal Affairs Section, Local Secretariat, Kabupaten Karo.

During the new Bupati's first two months in office, local government officials increased their focus on finalizing the drafting of the Local Regulation about "The Organizational Structure of the Local Government". Consequently, they have not yet made serious efforts to locate new sources of income to increase local revenue. The plan to submit new draft legislation incorporating changes to all existing local regulations (six local taxes and fifteen local levies) has been delayed (Table 5).

The contribution of local revenue to the Regional Budget (APBD) in Kabupaten Karo for the 1999/2000 Financial year amounted to Rp3.6 billion (5.3% of the budget). The largest component of this local revenue, approximately Rp3.3 billion (94.4%) came from local taxes and levies. The local government in Kabupaten Karo plans to increase the local revenue target in the 2001 Financial Year by 12.4% compared to the previous year. The local government considers this figure to be realistically achievable by intensifying the collection of local taxes. It plans to increase local tax revenue by 25.5%, that is, an increase from Rp1.4 billion to Rp1.8 billion. At the same time, local levies are targeted to increase to 9.2%.

However, this does not mean that local government officials have been completely ignoring the efforts to unearth other sources of local revenue. Consideration has been given to the reintroduction of several levies that were previously abolished according to Law No.18, 1997. For example, the local government has planned to reinstate the following two types of levies by changing their title and status:

- a) The former 'Road Permit for Cars and Trucks Over 3,000 kg Levy' will be modified to become the 'Use of Kabupaten Roads Levy'.
- b) The former 'Pangkalan' Levy<sup>13</sup> will be changed to 'Transportation of Agricultural Produce From Kabupaten Karo Tax'. The status of this imposed levy has been changed to a local tax because the local government is aware that the imposition of levies must be in accordance with the services provided. When the Pangkalan Levy was still being enforced, prior to the enactment of Law No.18 1997, the local government did not provide the relevant services that were meant to correspond with the purpose the levy.

At present, the local government in Kabupaten Karo is formulating draft legislation for these two levies (see Table 6, 15 and 16). There are also plans to impose the following two new levies which at present are still being drafted:

- a) Draft legislation for the Examination, Vaccination, and the Inspection of Livestock Levy. During its investigations, the SMERU team found that this levy had already been introduced in several of the other areas, especially those regions that are centers of livestock production. At the time, many inter-island livestock traders complained that the levies for animal quarantine services actually overlapped with central government charges. Furthermore, there have been many irregularities in the collection of these levies. They are applied indiscriminately to all livestock regardless of whether or not the quarantine services have been actually used and without any variation in the amount charged. Under its draft legislation the local government of Kabupaten Karo has not yet determined the rate for each type of service provided.
- b) Proposed draft legislation on the Transportation Vehicles Passing through the City Centre Levy. Realistically there are no alternative routes other than through the city center, and as a result the plan to introduce this levy contains an element of compulsion. Just like the Examination, Vaccination, and the Inspection of Livestock Levy, similar levies have already been imposed in several other regions. It is also believed that this levy will overlap with the Use of Kabupaten Roads Levy because both levies have the same targets, vehicles or trucks transporting goods.

Opinion is divided among local government officials in Kabupaten Karo regarding these efforts to obtain new sources of local revenue. The Bupati, with a background in business, believes that many permits that have been in force until now have resulted in a high cost economy, and have generally had a negative effect on business activity. Such policies tend to reduce the overseas market competitiveness of high quality local commodities, for example, in Singapore and Malaysia. The Bupati also believes that in order to increase prosperity in Kabupaten Karo, where the livelihood of the region largely relies on on farming, the production and marketing of agricultural produce must be developed by focusing on the global market. Consequently, there are a number of issues that present a challenge and must be addressed by the local Kabupaten Karo government:

- 1) provision of fast and reliable market information to farmers;
- 2) assistance to increase the quality of production and packaging techniques; and

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<sup>13</sup> "Pangkalan" literally means 'terminal' and are places or facilities which can be used as a form of accommodation during the transportation of agricultural produce, fish and livestock. Each commodity to be transported for trade, both within and outside the region, must pass through the relevant *pangkalan*.

**Table 6. Types of taxes and levies in Kabupaten Karo, and those abolished based on Law No. 18, 1997 and their current status**

No	Revenue Source	During the period of Law No.18, 1997	After regional autonomy	Remarks
	<b>Local taxes</b>			
1.	Dog Registration Tax	Abolished	Remain abolished	-
2.	Permit for the sale of alcoholic beverages	Abolished, but reinstated	Taxed	Has become a levy: Permit for the sale of alcoholic beverages
3.	Non-motorized vehicles Tax	Abolished	Remain abolished	-
4.	Slaughter house Tax	Abolished, but reinstated	Taxed	Has become Slaughter House Levy
5.	Billiard Hall Tax	Abolished	Remain abolished	-
6.	Company Registration Tax	Abolished	Remain abolished	-
	<b>Local Levies</b>		Remain abolished	
1.	Livestock Business Levy	Abolished	Remain abolished	-
2.	Administration Fee ( <i>Leges</i> ) Levy	Abolished	Remain abolished	-
3.	Recruitment Service Fees	Abolished	Remain abolished	-
4.	Street Numbering of Houses, Buildings, Shops, Offices, Bungalows, Hotels Levy.	Abolished	Remain abolished	-
5.	Family Cards, ID cards and ID renewals Levy	Abolished, but reinstated	Taxed	Has become the “Cost of Printing ID cards and Civil Registration Documents Levy”
6.	Business locations Permit	Abolished	Remain abolished	-
7.	Food stalls and Coffee shops Levy	Abolished, but reinstated	Taxed	Has become Hotels, Restaurants, and Coffee Shops Tax
8.	Motor Vehicle Business Permit	Abolished	Remain abolished	
9.	Industry Assistance Fees	Abolished	Remain abolished	-
10.	Permits for Driving and Operating Horse-drawn vehicles	Abolished	Remain abolished	-
11.	Medical Examination of Company Laborers Levy	Abolished	Remain abolished	-
12.	Registration of Trade Marks Levy	Abolished	Remain abolished	-
13.	The Provision of Contractor Documents for Regional Budget (APBD)-funded projects Levy	Abolished	Remain abolished	-
14.	Livestock Slaughtering Levy	Abolished	Remain abolished	-
15.	Road Permits for cars and Trucks 3,000 kg and above	Abolished	To be reinstated	To become “Use of Kabupaten Road” Levy
16.	Terminal Levy	Abolished	To be reinstated	To become “Transportation of Agricultural Products from Kabupaten Karo” Tax
17.	Establishment of Motor Vehicles Workshop Levy	Abolished	Remain abolished	-
18.	Building Constructions, and Disturbance Permits Levy	Abolished, but reinstated	Taxed	Has become “Building Construction Levy” and “Disturbance/Noise Levy”

Source: Legal Division, Secretary of Local Government, Kabupaten Karo.

3) provision of access to information about available types of financial services.

However, during the discussions about efforts to increase local revenue, the Bupati realized that this *kabupaten* does not have other economic resources to rely upon as a local source of

income for the local treasury. As a result, the abundance of agricultural commodities in Kabupaten Karo is seen as a large potential source of local revenue. Other local government officials, for example both the Deputy-Bupati and the Assistant Local Secretary, are of the opinion that there is no need to be concerned about the return to a high cost economy. They regard the size of the levies as extremely small and consider it natural for businesses operating in the region to make contributions directly to the local government. The views of the Bupati in Karo are market-oriented although it appears he is hampered by the need to concentrate on increasing local revenue. Ultimately however, the majority of local government officials in Kabupaten Karo support efforts to increase these local revenues<sup>14</sup>.

The size of the General Allocation of Funds (DAU) received by the Kabupaten Karo is relatively small compared to its budget requirements (APBD) for this financial year. It is predicted that this will trigger further attempts by the local government to search for other potential forms of local revenue. The total amount of DAU in Kabupaten Karo is only Rp92.5 billion, while the funds needed for the routine budget is Rp93.6 billion, including Rp81 billion for the wages of the government officials alone. Consequently, in order to cover even the routine expenses, another Rp1.1 billion is needed in addition to the DAU. If the estimated income from local revenue and the remaining funds from last year are combined, then the total funds available for development in Kabupaten Karo in 2001 only amount to Rp11.6 billion. This figure is far smaller than the funding available for the 1999/2000 financial year, which amounted to Rp20 billion. Furthermore, those funds were allocated to the regional budget and did not include the sectoral budget. Kabupaten Karo will continue to receive international assistance for development projects amounting to Rp7.3 billion, as a part of the on-going North Sumatra Regional Program (NSRP). However, it has been clearly stipulated that these funds can only be used for road construction. Thus, there is strong impetus for the local government to increase local revenue to provide further funding for the Regional Budget.

## **(ii) Kabupaten Simalungun**

The local government of Kabupaten Simalungun believes the financial capacity of the region is the main factor that will determine the successful implementation of regional autonomy. This is based on the assumption that a relatively large increase in authority also requires a more substantial budget. In other words, the local government is convinced that the implementation of regional autonomy requires a corresponding increase in the budget, for both routine and development expenditure. Consequently, while Kabupaten Simalungun has received a General Allocation of Funds amounting to Rp260.3 billion (the third largest allocation in North Sumatra), the local government still believes it needs to raise as much local revenue as possible. The head of one local government *dinas* stated that the capacity to raise local revenue is one of the indicators that reflect the capability of the region to embrace regional autonomy.

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<sup>14</sup> The confusion surrounding market orientation also exists in the community. For example the leadership of the Indonesian Journalists Association in Kabupaten Karo hope that some regulation of the market by local government will be a check on fluctuations of agricultural commodity prices that often affect farmers. They hope that the local government will create regulations to help control the cultivation patterns so that production is in accordance with the demands of the market. These views have become confused and misplaced. If the mechanism applied takes the form of regulation it has the potential to limit the rights and desires of the farmers. Actually, the SMERU Team found that many of the views expressed by the Bupati in Kabupaten Karo to be most interesting. The farmers require open and direct access to information (prices, the levels of demand and supply, the business environment, and technology), and access to capital as an input for production. Based on this information farmers will be able to self-regulate the cultivation patterns and type of crops produced, so that they are profitable and achieve the optimum levels of production.

The above response depicts the general attitude of the local government of Kabupaten Simalungun towards the implementation of regional autonomy, especially concerning local finances. The approach of the local government is summarized explicitly in the 'Kabupaten Simalungun' Strategic Plan. The objective of the plan is for Kabupaten Simalungun to become both autonomous and prosperous, through the empowerment of the people's economy and the creation of first rate institutions over the next five years. There are eight mission statements that specify how the local government is going to realize its vision. One of these mission statements outlines the plan to increase regional revenue. This will be achieved through:

- 1) intensifying efforts to maximize local revenue in those areas previously targeted as sources of revenue. This includes maximizing Land and Building Tax as well as Ground Water Levies (ATB levies)<sup>15</sup>.
- 2) diversifying the sources of tax earnings which involves widening the potential tax base, to include birds nest producers, public and private plantation companies, and third party contributions<sup>16</sup>, which in the past have not been major sources of tax revenue.

After the draft legislation about authority was ratified by the DPRD (in February, 2001), based on these missions and visions the local government in Simalungun was able to prioritize both the discussion and formulation of 32 draft local regulations concerning efforts to raise income from local revenue (see Table 7)<sup>17</sup>. Seventeen of these are new draft local regulations, while the remainder constitutes changes to previous local regulations. The titles of the draft legislation are listed in Table 7 and indicate that each one is concerned with increasing the local revenue in the form of taxes, levies, contributions, third party contributions, and even various types of licenses<sup>18</sup>. If all these draft local regulations are approved by the DPRD, then there will be as many as 43 kinds of pure local revenue that will have resulted from the "creativity" of the region. During the year 2000, 26 kinds of local taxes and levies were already included under the umbrella of local revenue (see Table 8).

The draft legislation about the 'Plantation Company Contributions'<sup>19</sup> from both public and private companies has been given priority by the local government because it hopes it will become a key source of local revenue. While these charges will be in the form of contributions, the characteristics of the contributions are identical to taxes in the draft legislation. The draft legislation states that every state-owned plantation enterprise, or individually owned plantation company, are obliged to make contributions to the local government. Several of the important details of the legislation are as follows:

- a) These contributions are derived from the following plantation company commodities: rubber, palm oil, cocoa beans, coconut/copra, areca nuts, candle nuts, and other commercial crops.

<sup>15</sup> According to Law No.34, 2000, the authority to collect of ground and surface water levies has been returned to the jurisdiction of the provincial government

<sup>16</sup> The Strategic Plan of Kabupaten Simalungun for 2001-2005. Pematang Siantar, December 2000.

<sup>17</sup> According to the schedule, the discussion of this draft legislation was intended to be completed between 19 and 28 February, 2001. However, the preparations were incomplete within this time frame so the schedule for discussions was extended until March 2000.

<sup>18</sup> The total number of draft local regulations about these contributions will probably continue to increase in number. The local Revenue Office, for example, plans to reinstate the Road Permit Levy and the Administration Fee Levy

<sup>19</sup> The draft legislation about Private and Public Plantation Company Contributions can be considered as a modification of Local Regulation No.38, 1995 concerning Plantation Management Licenses. Both represent endeavors by the local government to benefit directly from the existence of plantation companies as a source of local revenue. There was sufficient opportunity for the effective implementation of this 1995 local regulation due to the existence of Law No.18, 1997.

- b) The monthly production of all plantation companies (public or private) will be subject to a contribution charge of up to 1.5% of the market price per kg. This percentage rate is the result of a revised of the previous tariff which was based on a nominal rate, i.e.: a) palm oil, Rp5/kg of fresh palm oil kernels; b) rubber smoked sheet Rp50/kg; c) tea, Rp100/kg of dried leaf; and d) cocoa, Rp40/kg of dried seed.
- c) The determination of the weight of the produce is to take place at each local enterprise.
- d) Contributions are to be paid monthly, directly to the Local Treasury.
- e) If payments are overdue, an administrative penalty in the form of interest will be imposed and charged at 2% on the total amount in arrears.

**Table 7. Draft Local Regulations on proposed levies, Kabupaten Simalungun, 2000**

No	Title of Draft Local Regulation	Dinas/ Implementing Agency	Status of Levies		Remarks/Status of Draft Regulation
			Under Law No.18, 1997	Approaching /During Regional Autonomy era	
1.	Use of Ground and Surface Water	Mining	Became a tax	Taxed	Being drafted
2.	Third Party Contributions	Regional Treasury	N/A	Taxed	Has been amended
3.	Disturbance Permit (HO)	Regional Treasury	Taxed	Taxed	Has been amended
4.	Hotels and Restaurants Tax	Regional Treasury	Taxed	Taxed	Has been amended
5.	Exploitation of Local Natural Resources Levy	Bina Marga	Taxed	Taxed	Has been amended
6.	Recreation and Sporting Venues Levy	Tourism	Taxed	Taxed	Has been amended
7.	Printing cost of Family Cards, ID cards, and Civil Registration Documents Levy	Civil Registrar	Taxed	Taxed	Has been amended
8.	Worker Welfare Assistance	Manpower	N/A	Taxed	Has been amended
9.	Municipal Waste Disposal/ Sanitation and Parks Levy	Sanitation	Taxed	Taxed	Has been amended
10.	Public Cemeteries and Parks Levy	Sanitation	Taxed	Taxed	Has been amended
11.	Fees for the Registration of Industries and Industrial Assistance	Industry	Abolished	Taxed	Has been amended
12.	Building Construction Levy	Public Works	Taxed	Taxed	Has been amended
13.	Transportation route Levy	Road Transport	Taxed	Taxed	Has been amended
14.	Health Service Levy	Health	Taxed	Taxed	Has been amended
15.	State and Private Plantations Enterprise Contributions to the Governments	Plantations	N/A	Will be reintroduced	Being drafted
16.	Permits for the Supply of Electricity for Privately owned Business and for Public Use	Mining	N/A	Will be reintroduced	Being drafted
17.	Establishment of Local <i>Depot</i> , Fuel Stations	Mining	N/A	Will be reintroduced	Being drafted
18.	General Mining Activities	Mining	N/A	Will be reintroduced	Being drafted
19.	Permits for the Use of Timber on Privately- owned Property	Forestry	N/A	Will be reintroduced	Has been amended
20.	Permits the Use of non-timber Forest Products	Forestry	N/A	Will be reintroduced	Has been amended
21.	Livestock Transport Health Inspection Levy	Livestock	Abolished	Will be reintroduced	Being drafted
22.	Project Bidding Documentation	Public Works	Abolished	Will be reintroduced	Being drafted

**Table 7. (Cont'd.)**

No	Titles of Draft Legislation	Dinas / Implementing Agency	Status of Levies		Remarks/Status of draft regulation
			Under Law No.18, 1997	Approaching/ During Regional Autonomy era	
24.	Laboratory Testing Fees	Public Works	Taxed	Will be reintroduced	Being drafted
25.	Periodic Motor Vehicle Inspection Levy in Kabupaten Simalungun levies	Road Transport	Taxed	Will be reintroduced	Being drafted
26.	Rice Milling Enterprises and Rice Hulling Levy	Agriculture	Abolished	Will be reintroduced	Being drafted
27.	Compulsory Business Registration	Trade	Abolished	Will be reintroduced	Being drafted
28.	Origin of Goods Documentation	Trade	N/A	Will be reintroduced	Being drafted
29.	Trading Permit Certificates	Trade	N/A	Will be reintroduced	Being drafted
30.	Warehouse Levy	Trade	N/A	Will be reintroduced	Being drafted
31.	Regulation of Restaurants and Bars	Tourism	Abolished	Will be reintroduced	Being drafted
32.	Regulation of Hotel Businesses under the Bung Melt and Pondok Wisata category	Tourism	Abolished	Will be reintroduced	Being drafted

Note : N/A = information unavailable

Source : Legal Section, Regional Government Secretariat, Kabupaten Simalungun.

**Table 8. Types of taxes and levies imposed in Kabupaten Simalungun, up to 2000**

Local Taxes			
1.	Hotels and Restaurant Tax	4.	Street Lighting Tax
2.	Entertainment business Tax	5.	Exploitation and Processing of C Mining Tax
3.	Advertising Tax	6.	Ground and Surface Water Tax
Local Levies			
1.	Heath Service Levy	11.	Slaughter house Levy
2.	Waste Collection Levy	12.	Ship berthing facilities Levy
3.	ID cards and Civil Registration Documents Levy	13.	Recreation Park Levy
4.	Funeral Levy	14.	Local Business Products Levy
5.	Parking Levy	15.	Permits for the Allocation and use of land
6.	Market Levy	16.	Building permits Levy
7.	Fire Brigade Levy	17.	Sales of Alcoholic Beverages Levy
8.	Use of Local Natural Resources Levy	18.	Disturbance/Noise Levy
9.	Terminal Levy	19.	Transportasi Route Permits Levy
10.	Disposal of Septic Waste Levy	20.	Exploitation of Forest Product Levy

Source: Revenue Office, Kabupaten Simalungun.

- f) The companies not fulfilling their obligations to make these contributions, will be threatened with legal action and six months jail or, a fine of four times the amount of their contribution.

According to the Local Revenue Office, if these contributions are brought into effect in the near future, then the Simalungun local government will receive an increase in revenue of around Rp5 million per annum. Compared to the local revenue achieved in the 1999/2000 and the 2000 financial year, Rp5.0 billion and Rp5.1 billion respectively, the potential income from the plantation company contributions will certainly constitute a substantial sum. Consequently, most of the offices within Simalungun local government have a vested interest in ratifying the draft local regulation.

Some of the commodities that will be targeted, as sources of contributions, for example, coconut, areca nuts, and candlenuts, are all produced by the local community. Hence, it is a fair prediction that the draft local regulations will not only be directed at plantation

enterprises, but also at the community that produce those commodities that are regarded as commercial products by local government. This is evident from the response of one of those interviewed by SMERU who believes that the local government is in the process of investigating the establishment of several new posts to collect levies. The new posts will collect contributions from all agricultural and plantation commodities, including the produce from small holders that are not normally processed or traded through companies. If the DPRD in Simalungun agrees to the draft local regulations on Plantation Company Contributions, it is expected that all primary commodities traded (farming, plantations, fisheries, forestry, and livestock) including those produced by large companies as well as individual small holders, will be a target for Simalungun local government levies and contributions.

Apart from the local regulations and draft regulations referred to above, another local regulation which includes a section on imposing levies on the local community is Local Regulation No.17, 2000, concerning the *Nagori* Budgets in Kabupaten Simalungun. This local regulation states that one source of *nagori* finance is the 'Nagori' Levy. This will be collected through levies on the plantations (private, state, and small holder) located within the *nagori* area. The suggested size of the proposed levy is between one and three TBS per truck<sup>20</sup>. This concept has generally been developed for the highland regions in Simalungun where the majority of the *nagori* are either poor, or do not own *tanah-ulayat*<sup>21</sup>.

Irrespective of whether imposing taxes and levies will have a counter-productive effect on the long-term implementation of regional autonomy, the idea to increase funding through these taxes and levies has been partly triggered by Law No. 25, 1999. This law is considered unfair by the region because it only regulates the fiscal balance between the central and regional governments based on a limited number of natural resources, (only oil, natural gas, and forestry). While plantations are also considered a significant natural resource, there has been no provision made for this sector whatsoever in Law No. 25, 1999. Consequently, in an attempt to achieve a breakthrough, decisions are deliberately being made regarding the contributions of State-owned Agricultural Enterprises (PPN/PTPN) and Private Agricultural Enterprises (PPS/PPB) operating in Kabupaten Simalungun. The local government believes that those levies will not be in conflict with the prevailing legislation.

It seems that the local government of Simalungun intends to tax all of community economic activities as reflected in the draft local regulations and the local regulations outlined above. However, there is some opposition to these taxes from within the local government's own ranks. Many of members of staff from the local Trade Office, for example, have raised objections to some of the levies that will be placed on trade commodities. The trading sector considers that all of the levies mentioned above are too burdensome and should not be imposed. Being established as an autonomous region does not mean that there is automatic legitimacy for the local government (and the DPRD) to create regulations which are ultimately going to increase the burden on the local community. In order to strengthen the financial basis of the region, it is not necessary to make exclusive use of tax contributions and regional levies. In this era of regional autonomy, the local government bureaucrats must be able to make plans and to act like entrepreneurs. Similarly, the local government, as an institution, must be prepared to act as an enterprise. The Trade Office suggests that in order to strengthen the local finances that rely primarily on plantations, the Simalungun local government needs to make serious plans for the development of a Crude Palm Oil factory and

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<sup>20</sup> One TBS is equal to between 10 and 20 kg of palm oil kernels

<sup>21</sup> *Tanah-ulayat* is the traditional community land usually associated with *nagori* areas.

a trading house in the region. If however, in the short-term, the local government is not ready to abandon the tradition of collecting taxes and levies, then this scheme must be carried out selectively and in a strictly temporary manner.

### **(iii) Kabupaten Deli Serdang**

Like Kabupaten Simalungun, Kabupaten Deli Serdang assumes that in order to successfully achieve regional autonomy, the region must increase its revenues to the highest amount possible. The amount of the DAU received by this kabupaten is the largest among of any in North Sumatra, that is Rp335.2 million. However, the Kabupaten Deli Serdang government still believes that this amount is inadequate because 90% of these funds are to be used to cover routine administrative expenditure. The routine budget, starting from the fiscal year 2001, has increased, because the Deli Serdang government must pay for the wages of officials who are being transferred from the central government.

Other incomes such as local revenues also remain inadequate. This is illustrated by the total amount of local revenue for Kabupaten Deli Serdang in the year 2000 (before the new local regulations passed in 2000 became effective) which was only Rp34.3 million or around 25% of the Regional Budget. The main contributors to the local revenue were regional tax revenues which provided Rp8.5 million (24.8%) and a share from the Land and Building Tax (PBB) which reached Rp18.1 million (52.8%). By contrast, the revenues produced by regional levies only amounted to Rp3.8 million (11.1%). As a result, the Deli Serdang local government is very focused on passing new local regulations to increase their local revenue. In the year 2000, Kabupaten Deli Serdang issued 31 such local regulations. Of these, 28 were aimed at increasing local revenue, four of them through tax contributions and the remaining 24 through the contribution of levies (Table 9).

Before implementing regional autonomy, Kabupaten Deli Serdang also passed a number of local regulations to increase local revenue which were based on Law No. 18, 1997. During the period 1998-1999, the local government ratified 6 local regulations concerning regional taxes and 14 regulations concerning regional levies. Thus, there have been 51 local regulations released relating to local revenues in this *kabupaten* in the period from 1998 to 2000.

The new regulations in year 2000 were passed for the following reasons:

- (a) Local Revenues has to be maximized to increase the development budget because only about 10% of the DAU will remain for this budget. The largest portion of the DAU is for the routine budget. To this point, there are no reliable figures to indicate the amount of money required for the development budget. However, the Kabupaten Deli Serdang Revenue Office and the Regional Development Planning Board predict that there are insufficient funds available to cover the development expenditure in this *kabupaten*.
- (b) The Legal Affairs Section of Kabupaten Deli Serdang is deliberately creating as many local regulations as possible in order to capture all available potential resources within the *kabupaten*. Many of those interviewed were aware that some of these local regulations might be in conflict with Law No. 34, 2000. If this occurs, then these regulations will be revised following an examination of the contents of Law No.34, and after any reprimand is received from the central government. The reason that such conflicts may occur is that Law No. 34, 2000 was only released after the new local

regulations had been approved by the DPRD. The local government believes that these local regulations need to be implemented first so that the implications and effects can be examined. The Local Revenue Office in Deli Serdang also supports this view and suggests that local regulations, which provide a significant financial contribution, will be maintained, while those which do not will be abolished. All potential sources must be explored. Regarding central government sanctions, should these regulations contravene Presidential Decrees, government regulations or laws then the local regulations will have to be reconsidered.

- (c) Every regional office is required to compete to find appropriate sources of funds, especially efforts to increase regional revenue. According to the Local Revenue Office, the allocation from the Regional Budget for the year 2001 for each office (*dinas*) will be dependent upon the amount that each is able to contribute to the Local Treasury.
- (d) Law No.18, 1997 can no longer be accepted, as it is not in accordance with the spirit of regional autonomy. As a result, various levies which were banned under Law No.18, 1997 are presently being reinstated. Meanwhile, Law No. 34, 2000 cannot yet be used as a reference point because it has only just been released. Moreover, the Legal Section at the Bupati's Office in Kabupaten Deli Serdang admitted that there has not yet been an opportunity to study this law. So far, the local government is not considering revising any of their local regulations. This will only occur if conflicts are evident between these regulations and Law No. 34, 2000.

The contents of the above local regulations related to production and trade are set out in the Appendix. Several important points are worth noting:

- 1) The amount to be paid to regional governments in the form of third party contributions remains uncertain, but if entrepreneurs fail to pay these contributions they will be penalized;
- 2) Production levies imposed on fish ponds are as much as 20% of the floor price;
- 3) Permits for felling and exploitation of rubber tree timber is as much as Rp1,500 per cubic meter;
- 4) Taxes on the cultivation and exploitation of swallows' nests are up to 20% of the floor price;
- 5) Animal health inspection levies range between Rp10,000 for large animals and Rp5,000 for small animals;
- 6) Permits for the removal of forest products are 3% per kg of the market price;
- 7) Public transport companies levies range from Rp2,500 to Rp25,500 per year;
- 8) Levies for unloading tradable cargo receive a tariff of between Rp10,000 to Rp20,000 per vehicle;
- 9) Public transport route levies range between Rp3,000 and Rp35,000 per route for one year.

**Table 9. Local Regulations regarding taxes and levies in  
Kabupaten Deli Serdang, ratified in the year 2000<sup>a)</sup>**

No	Revenue Source	Dinas /Implementing Agency	Status of Levies		Remarks
			Under Law No. 18,1997	Approaching/ During regional Autonomy	
	<b>Local Taxes</b>				
1.	Areas and Cemetery Monument Tax	Revenue	Non-taxable	Will be taxed	New Regulation
2.	Agricultural Produce from State-owned, Private and Small Holder Plantations Tax	Revenue	Non-taxable	Will be taxed	New Regulation
3.	Fish Pond Production Tax	Revenue	Non-taxable	Will be taxed	New Regulation
4.	Management, Extraction and Exploitation of Swallow's Nests Outside the Natural Habitat Tax	Revenue	Non-taxable	Will be taxed	New Regulation
	<b>Local Levies</b>				
1.	Transport route Permit Levy	Communications	Taxed	Taxed	Amended
2.	Supervision, Inspection and Supply of Fire Extinguisher Levy	Human Settlements	N/A	Will be taxed	N/A.
3.	Market Levy	Markets Sanitation	Taxed	Taxed	Amended
4.	Street Parking Levy	Communications	Taxed	Taxed	Amended
5.	Disturbance/Noise Levy	N/A	Taxed	Taxed	Amended
6.	Exploitation of Local Natural Resources Levy	Road Transportation and Public Works	Taxed	Taxed	Amended
7.	Management of Effluent Waste Discharge Levy	Regional Environmental Impact Control Agency	N/A	Will be taxed	N/A
8.	Terminal Levy	Communications	Taxed	Taxed	Amended
9.	Special Parking Lots Levy	Communications	Taxed	Taxed	Amended
10.	Building Construction Levy	Human Settlements	Taxed	Taxed	Amended
11.	Health Service Levy	Health	Taxed	Taxed	Amended
12.	Animal Health Inspection and Slaughter House Levy	Livestock	Taxed, Levies on Slaughtering of animals	Will be taxed	Amended
13.	Auction Documentation Levy	Revenue	Abolished	Will be taxed	Amended
14.	Revenues from Third Party Contributions to the Government	Revenue	Taxed	Taxed	Amended
15.	Quality Supervision One Day Old Chickens Levy	Livestock	Taxed	Will be taxed	Amended
16.	Logging and Replanting of Rubber Trees Levy	Plantations	Taxed	Will be taxed	Amended
17.	Permits for Unloading Cargo	Communications	Taxed	Will be taxed	Amended
18.	Sale of Deli Serdang Government Vehicles Levy	Procurement Division	Taxed	Taxed	Amended
19.	Periodic Motor Vehicles Inspection Levy	Communications	Taxed	Taxed	New regulation
20.	Fishery Enterprise Permits	Fisheries	Abolished	Taxed	Amended
21.	Provision of certificates Authenticating the Use of Forest Products Levy	Forestry	Abolished	Will be taxed	Amended
22.	Extraction of Forest By-product Permits.	Forestry	Abolished	Will be taxed	Amended
23.	Registration of Local Business Permits	Revenue	Abolished	Will be taxed	Amended
24.	Public Motor Vehicle Transport Business Permits.	Communications	Abolished	Will be taxed	Amended

Note: a) Six local taxes and 14 levies had been ratified in 1998 and 1999 based on Law No. 18, 1997.

b) Before regional autonomy policy these taxes were under the authority of the provincial government.

N/A= information not available

Source: Legal Affairs Section, Local Secretariat, Kabupaten Deli Serdang.

## **IV. THE IMPACT OF THE LEVIES: PROBABLE TRENDS**

Since the new local regulations on taxes and levies have not been fully implemented in the areas where SMERU carried out its investigations, the Team was unable to conduct a more detailed study of their impact on the local business climate. However, should these regulations be fully implemented, local business actors (farmers and traders) believe that these taxes and levies will have a negative impact on the local business climate. Some of the likely trends of the negative impact of these levies are noted below.

### **1. INCREASED DISTRIBUTION COSTS**

The abundant agricultural commodities from Kabupaten Karo are mostly perishable goods. Therefore, it is crucial to secure smooth and rapid distribution of these goods to maintain both quality and the selling price at the consumer level. Consequently, farmers and traders will make every effort to expedite the delivery of these goods to the buyers, even if they have to pay various taxes and levies en route. These additional charges will add to the distribution cost, and eventually will lead to a higher price at the consumer level. The amount of the levies extracted is determined by measuring the tonnage of the truck at various weighing stations along the routes. Box 1 illustrates the number of weigh bridges and the amount of taxes and levies paid by a truck driver at each location traveling from Kabajahe, Kabupaten Karo to Jakarta.

- It is estimated that the total amount of levies (official and non-official) paid to transport oranges from Kabanjahe to Jakarta ranges from Rp268,500 to Rp1,008,500. Paying the lowest amount would only be possible if the truck complies with its permitted capacity. Nevertheless, even when trucks comply with the regulations frequently drivers still have to pay levies. As a result it is common for truck drivers prefer to carry loads that exceed the trucks legal capacity.
- The estimated value of the load of one 8-ton truck of oranges transporting approximately 120 baskets @ 65 kg at the farm gate price of Rp1,800 for grade A, B, C, and D oranges is Rp14,400,000. Hence, the total value of the transported goods paid out in taxes and levies is between 2% to 7%.

### **2. KEEPING PRICES DOWN AT THE FARMER OR PRODUCER LEVEL**

Wholesalers at the *kabupaten* level interviewed by the SMERU Team reported that if the burden of taxation were too high, they would have to shift the burden to the purchase price at farm gate. Local farmers fully understand this situation. Therefore, although the various taxes and levies are not directly charged to the farmers, they know that the wholesalers or the middlemen have to reduce the purchased price because of the burden of the levies paid out at the various checkpoints.

### **Box 1. Fines and levies paid for transporting oranges from Kabanjahe to Jakarta**

A truck driver who regularly carries oranges from Kabupaten Karo to Jakarta reports that there are at least 16 truck weighing stations and several other levy checkpoints that have to be passed along the route. The table below shows the number and amount of “fines” paid by truck drivers – both those who comply and those who do not comply with the weight limit at each station.

#### **1. Weighing Station**

Province	Number of Stations	Amount of fines	Remarks
1. North Sumatra	4	Rp5,000 – 10,000 for each ton of excess weight	Per ton of excess weight
2. Riau	2	Rp60,000, paid by all, irrespective of weight trucks.	Fines have to be paid by both complying and non-complying vehicles, plus additional road levies: -Rp2,500 (6-ton truck) -Rp3,500 (8-ton truck)
3 .Jambi	2	Rp60,000, paid by all trucks	Plus additional road levies: -Rp2,500 (6-ton truck) -Rp3,500 (8-ton truck)
4. South Sumatra	5	Fine of Rp15,000 for each ton of excess weight	In addition to the possibility of receiving a fine, there are also road levies: -Rp2,500 (6-ton truck) -Rp3,500 (8-ton truck)
5. Lampung	3	Fine of Rp15,000 for each ton of excess weight	In addition to the possibility of receiving a fine, there are also road levies: -Rp2,500 (6-ton truck) -Rp3,500 (8-ton truck)

#### **2. Official and non-official levies at Pelabuhan Bakauheuni:**

Type of levies and charges	Amount	Remarks
-Stamp Fees	Rp3,000	Illegal levies are collected at the Ferry Harbor in Bakauheni
-Fee to raise the barrier	Rp3,000	
- <i>Preman</i> charges	Rp2,000	
-Fees to gain early departure	Rp15,000	To secure priority when there is a long queue
-Quarantine	Rp1,000	Official levy at the Gayam Quarantine Post
-Agricultural produce Levy	Rp7,000	Official levy applied to all types of transport vehicles

In fact, many traders have indicated that they are prepared to make some contribution to the local government as long as the levies are official, and are not too numerous, and as long as the total amount is reasonable and thus manageable. The SMERU Team has some doubts regarding the guarantees given by local government officials during interviews that the amount of the levies had been carefully considered so as not to put too much of a burden on farmers and consumers. In practice, traders have frequently informed farmers that they have to lower the farm gate prices due the various taxes, levies and other related charges. Local government has no mechanism to prevent traders or middlemen from shifting the additional costs on the farmers. This situation indicates that the local governments have a short-term perspective and have been partial and one-sided in the policy decision-making process that they have adopted.

### **3. ACCELERATING A HIGH COST ECONOMY AND SOCIAL UNREST**

The increasing number of taxes and levies on business activities has spurred a high cost economy although all these taxes, levies, permits, contributions, and other similar charges are not directly related to the production process. However, all such levies should be regarded as elements of expenditure that do directly affect the market price at the various levels of distribution (from middlemen traders to wholesalers and retailers). Consequently, the market price does not merely reflect the real production cost.

Another potential impact of the application of all these taxes is the possibility of social unrest in the form of public disobedience. In the current uncertain social and political climate, any government policy deemed to be detrimental to the interests of the general community would result in protests or opposition. Such a trend is already becoming apparent. For example, the Association of Palm Oil Producers (GAPKI) in Medan is planning to challenge all local regulations that have been applied to their business activities, including those regulations on Third Party Contributions. The reason for the opposition on the one hand, is to prevent a high cost economy in order to safeguard the long-term business sustainability of farmers and entrepreneurs, as well as to maintain the competitiveness of North Sumatra's export commodities. On the other hand, it may also serve as a warning to the local government against the formulation or imposition of unfair tax or levy regulations on the local business community (see Box 2).

Another indication of opposition is the protest from the Gabion Belawan Association of Fishing Entrepreneurs against various levies imposed on them by North Sumatra provincial government. The Association believes that most of these levies were "fabricated" since these were not based on the provision of any services. The members claim that up until now they have never received any services by the local government and are under no obligation to pay the levies (see Box 3).

### **4. WEAKENING LOCAL COMPETITIVENESS AND REDUCING COMMODITY EXPORTS**

In the long term, if this high cost economy continues, the eventual impact will be to weaken the competitiveness of local in export commodities, which have always been the backbones of this region. In addition, a high cost economy may result in a reduction in local economic activities as some business leaders are forced to close down or move their business enterprises elsewhere. Such a trend is becoming apparent. One NGO in Medan explained

that several cane handcraft businesses in Kabupaten Deli Serdang, for example, are considering relocating their businesses to other *kabupaten* if the local taxes become too burdensome.

### **Box 2. A Possible Solution to Conflict**

In an attempt to avoid conflicts between palm oil producers and the local government over the issue of compulsory regional contributions, the Association of Palm Oil Producers (GAPKI) initiated negotiations to resolve this issue with the six *kabupaten* in North Sumatra which produce palm oil: Kabupaten Langkat, Kabupaten Simalungun, Kabupaten Deli Serdang, Kabupaten Labuan Batu and Kabupaten Asahan.

The members of GAPKI took this action as a response to the following issues. Firstly, they object to paying the Third Party Contributions. The Regional Tax Office has always classified this contribution as a non-deductible tax which increases production costs. Secondly, it was proactive measure to prevent the palm oil-producing *kabupaten* from carrying out their plan to impose a levy on the transportasi of palm oil kernels (TBS). The producers have been informed that the local governments were planning to collect contributions from palm oil kernel traders and farmers. The local governments argue that they should have the right to tax oil products obtained above ground (palm oil) just as they can with oil products from below ground (petroleum). Based on their observations, GAPKI found that the levy will soon be applied at rates which vary from area to area. For example, Kabupaten Langkat is planning to collect taxes at a rate of Rp1 per kilogram of TBS, Kabupaten Deli Serdang will apply a levy of Rp6,000 for each vehicle transporting TBS; Kabupaten Asahan will charge Rp3 per kilogram of TBS, and Kabupaten Labuan Batu, Rp5 per kilogram of TBS. Such a collection system is considered prone to corruption, collusion and nepotism (KKN), which means that not all of the collected levies actually reach the Local Revenue Offices. The negotiation process with the *kabupaten* governments is continuing. GAPKI is suggesting that a contribution payment system similar to taxation be introduced to replace the compulsory regional contributions. Based on this system, they are prepared to pay a contribution in the form of tax (so that it can be incorporated as a cost component) at Rp1 per kilogram of TBS. The amount paid will be based on the total production of the plantation or producer. If this contribution system is put in place, GAPKI requests that other levies already imposed on producer, including the charges levied along transport routes, be removed. It is believed that this payment system will reduce the high cost economy, as long as there are no other illegal levies being charged. Monthly payments will be made by transferring funds directly to the local governments' account at a designated bank, thus avoiding leakages at the collection level. The bank payment receipts can be exchanged for a levy payment certificate at the Local Revenue Office. All of the GAPKI member companies have agreed to adopt this system, but if this system is put in place they do not wish to be subject to other levies. To prevent cheating, three parties will carry out the monitoring of the total kernel production: GAPKI, the Plantations Office, and the Revenue Office.

During SMERU's field investigations, the team was informed that the Kabupaten Langkat government had already approved the proposed contribution system. GAPKI will continue to campaign the introduction of this system in all palm oil producing *kabupaten* throughout North Sumatra.

**Box 3. The Fisheries Association of Gabion Belawan (AP2GB):  
Protests about the local government's taxation policy on sea products**

Currently the fishing communities gathered under the umbrella of AP2GB have become restless. This is due to two reasons: firstly, the production volume of fish catchments has been steadily declining, and secondly, the implementation of regional autonomy policy has motivated the local government of North Sumatra to take steps to increase regional revenues from fishing. The government's plans are already being realized, with the establishment of the Single Office for Marine Administration (Samsat Kelautan) which will assume responsibility for collecting the various maritime levies that have been applied by the Provincial Government of North Sumatra.

The grievances of the AP2GB members have been expressed at every meeting of the Marine Administration as well as in a number of petitions. In one of the petitions directed to the head of North Sumatra's local assembly, AP2GB addressed the following issues: a) Perda No. 5, 1999 regarding fishing boat docking and mooring levies. This levy is considered thoroughly inappropriate because it is identical to the docking service charges paid to the Perum Prasarana Perikanan Samudera in Belawan. Furthermore, the local government itself has not yet provided any facilities whatsoever for fishing boat docking; (b) Perda No.7, 1999 regarding wholesaler and shopping complex levies. This is also considered to be inappropriate impost, as the local government has not yet established any such location to sell or auction fish. Selling fish at auctions, a common practice in Java, has yet to be introduced in North Sumatra. The recommendation to establish a supervised fish auction as regulated by Perda No. 13, 1987 has now been cancelled because this regulation had been abolished by the Ministry of Internal Affairs; (c) The Office for Marine Administration may be set up but only on the condition that it does not add to the bureaucratic red tape that may impede the fishermen's daily operations.

Another petition was signed by association members was directed to the Head of the Local Revenue Office and the Head of the Fisheries Office, of the Provincial Government of North Sumatra. The association protested about the sharp rise in the scale of levies on the sale of fish, which have increased by 200%, from Rp25/kg to Rp75/kg. This increase is regarded as too steep and overlooks the fact that up until the present time the local government has not provided fishermen with any services. For example, in the middle of 1999, when fighting erupted amongst street thugs, no protection was provided for the fishermen. As a result, the fishing wharf at Gabin and 25 fishing boats were destroyed. The association suggested that the rise in levies be limited to 60% or Rp40 kg.

## V. CONCLUSION

During the era of regional autonomy, it is estimated that the number of new taxes and levies will increase significantly. The SMERU team has already observed this trend. Throughout the early phase of the implementation of regional autonomy policy, one of those *kabupaten* visited in North Sumatra has already passed nearly thirty local regulations on new taxes and levies aiming to increase local revenue. Meanwhile, the other two *kabupaten* are in the process of drafting similar local regulations. There is a clear indication that the local governments have been deliberately exploiting the momentum of the regional autonomy to strengthen their financial base in any way they can. Despite public criticism, these local governments have continued to carry out this policy. Many parties are of the opinion that the majority of these taxes and levies are created to collect as much revenue as possible, while disregarding the long-term potential distorted impact.

It remains unclear as to whether local government is unaware of the potential distorting impact of this policy. In fact, the objective of Law 18, 1997 was to rectify the problematic high cost economy resulting from the different taxes and levies imposed by the local governments since the 1980s. At that time, in addition to objections to the above law expressed by many local government officials, others also realized that those levies had interfered with the local business climate.

Many entrepreneurs and traders are beginning to complain about the increasing number of levies appearing along transport routes, particularly with the return to the use of weighing stations by the Office of Transport (DLLAJ). The DLLAJ have admitted that the reopening of the weighing station under the guise of regional autonomy has created a dilemma. Basically, the main function of these stations is to limit the physical damage to the road system (particularly on the state and provincial roads), and to check on the origin and destination of the transported goods. However, it is apparent that the weighbridges are also to function as sources of local revenue.

If the policy of regional autonomy is only to be exploited as means of providing the regions with legitimate tools to increase the burden on the community without the compensation of better public services, the general public will have ample reasons to oppose the implementation of regional autonomy. Signs of such ‘opposition’ towards local government policy are becoming apparent, as in the case of GAPKI and AP2GB in North Sumatra. If this continues to occur, the intended goal of regional autonomy providing better public services to accelerate the improvement of people’s welfare will remain an empty slogan. Many groups have recently begun to express their concerns that if substantial authority is placed in the hands of the regions they will be encouraged to act arbitrarily. With large funds at their disposal, many fears that this will only lead to the creation of little “kingdoms” in the regions.

Such trend has already become apparent in those regions with abundant natural resources. Local governments in these regions have started to demand a more dominant role in the operation of the state-owned enterprises located in their regions. As the “owners” of the regions now they are asking for a fair share.

Many of the above issues are related to the local government revenues. However, there are also some problems related to regional expenditures. In this case, *kabupaten* governments have tended to ignore the need to give priority to planning to raise the level of public

services. Up until now, for example, the regions still have no scale of priorities for the provision of standard services (except in the provision of permits) to boost the business climate in their area. Many local governments have not decided on the requirements of development budget in accordance with the services that have to be delivered. The answer frequently given whenever questions are raised about this issue, is that the local development program will be formulated based on the available budget. Therefore, it is not surprising that local governments are currently focusing all their attention on locating the maximum amount of revenues to increase their development budget. This has been further strengthened by the DAU received by most regions from the central government is barely sufficient to fund for their routine requirements of the local bureaucracy.

Because many of the technical guidelines related to Law 22, 1999 and Law 25, 1999 have not yet been drafted, some regions have attempted their own interpretation of these two laws, and have then drafted their own local regulations based on their interpretation. The *kabupaten* governments are not concerned that their regulations might contradict with the central government's regulations. For example, the Deli Serdang government will continue its plan to form an Office of Land Affairs even though this office has been abolished through the Presidential Decree No 895, 2000 that was later reinforced by the Presidential Decree No. 10, 2001. However, local officials believe that any law challenged by the central government (if any) will have no strong basis because the regional regulation is based on Law No.22, 1999 which occupies a higher position than the presidential decree in the Indonesian legal system.

Why would the regions dare to take such a step? Are local governments no longer "afraid" of the central government? The most frequent answers received by the SMERU Team was that the central government has to be "challenged" by the regions for the following reasons:

- 1) The central government is reluctant to hand over autonomy to the regions. It is evident that the central government is still interested in managing the regions, particularly concerning those productive sectors of the economy that have been the major sources of government revenue.
- 2) The central government has been inconsistent in implementing the regional autonomy laws. On the one hand the regions are expected to be self-reliant, but on the other hand the central government has not provided sufficient opportunity for the regions to receive a fair share of the revenues gained from the exploitation of the region's rich natural resources.
- 3) The amount of the General Allocation of Funds (DAU) provided for the regions were relatively large. But after central government employees and more responsibilities for government services have been transferred down to the regions, most of the allocated budget has been sufficient to fund routine local government expenditure.

This situation has boosted local governments' enthusiasm for increasing their local revenue even though in the long term (consciously or unconsciously) such endeavors tend to create negative impact on the local business climate.

# APPENDIX

## Contents of New Local Regulations relevant to the Business Climate in Kabupaten Deli Serdang

No	Number of Decree and Regulation	Titles	Contents	Notes	Tax collecting Agency
1.	Decree No. 079/2000	Identification of key regional commodities	Key commodities and their allocation to each responsible <i>Dinas</i>	No levies	
2.	Decree No. 037/2000 , Decree No. 029/2001, Regulation No. 19/2000	Permit to cut and to use rubber tree timber	Permission to cut and use unproductive rubber trees. Applied tariffs: Rp1,500/m3 for logged wood and Rp300/m3 for non-logged wood.	Levies	Plantations Office
3.	Decree No. 017/2001 and Regulation No. 23/2000	Permit for operate general passenger vehicles and special vehicles	Annual tariffs: 1. Passenger cars Rp5,000 2. Buses Rp7,500 3. Taxis Rp5,000 4. Automated Tricycles Rp2,500 5. Four-wheel vehicles Rp7,500 6. Six-wheel vehicles Rp15,000 7. Eight-wheel vehicles Rp20,000 8. More than ten- wheel vehicles Rp25,000 9. Six-wheel tractors Rp15,000 10. Ten-wheel tractors Rp20,000 11. Four-wheel trailers Rp7,500 12. Eight-wheel trailers Rp25,500 13. Four-wheel trailers Rp5,000 14. Eight-wheel trailers Rp10,500	Levies  To avoid long delays for administrative clearance, in most cases the transport operators have to pay more than the formal tariff.	Communications Office (Formerly administered by the Transportation Office)
4.	Decree No. 23/2001 and Regulation No. 25/2000	Tax on coastal fish pond production	All types of coastal ponds are taxed.  The highest tariff is 20% of the farm gate price.	Tax	Local Revenue Office
5.	Decree SK No. 024/2001 and Regulation No. 24/2000	Tax on edible bird nests cultivated outside their natural habitat	Subject to tax: 1. Size of location for bird nesting, Rp15,000/m2/year, ▪ Bird nest production, 20% of selling price.	Tax	Local Revenue Office  Permit is also issued by the Public Works Office (Cipta Karya); annual levy is Rp2.5 million
6.	Decree No. 025/2001 and Regulation No. 03/2000	Market or trading transaction activities	Object: Any activities using market facilities (market stalls and kiosk) provided by local governments. Trading transactions outside the market are subject to levies.  Annual levy tariffs: Special separate market kiosk in daily market: Rp20,000/year Selling in the stalls of a daily market: Rp15,000/year Selling in the stalls of a weekly market: Rp10,000/year  Daily levies tariffs: ▪ First class kiosk Rp250/m2/day ▪ Second class kiosk Rp200/m2/day ▪ First class stall Rp200/m2/day ▪ Second class stall Rp150/m2/day ▪ Standard kiosk in weekly market Rp300/m2/day	Levies	Municipal and Market Sanitation Department

No	Number of Decree and Regulation	Titles	Contents	Notes	Tax collecting Agency
			<ul style="list-style-type: none"> <li>Standard stall in weekly market Rp250/m2/day</li> <li>Special kiosk for selling meat Rp600/m2/day</li> <li>Special stall for selling meat Rp500/m2/day</li> <li>Special kiosk for selling fish Rp500/m2/day</li> </ul> <p>Fish wholesale markets: between Rp10 to Rp 1,500/kg</p> <p>Vegetable wholesale markets: between Rp5 to Rp1,500/kg</p>		
7.	Decree SK No. 026/2001 and Regulation No. 28/2000	Third Party Contribution	<ul style="list-style-type: none"> <li>Can be paid in cash or with goods</li> <li>All business activities that exploit natural resources in the region should give a 'contribution' to the local government.</li> <li>The amount of the contribution is subject to negotiations with the local authority (executive and legislative).</li> </ul>	Compulsory levies	Local Revenue Office
8.	Decree No. 35/2000, Decree No. 030/2001, and Regulation No. 17/2000	Permits to load and unload tradable goods	<p>Monthly tariffs:</p> <ul style="list-style-type: none"> <li>Up to 7 ton-weight-vehicle Rp10,000</li> <li>7 to 14 ton-weight-vehicle Rp15,000</li> <li>14 ton and above Rp20,000</li> </ul>	Levies	Transportation Office (DLLAJ)
9.	Decree SK No. 031/2001 and Regulation No. 16/2000	Quality control and certification of one day old chickens (DOC)	Levy tariff is Rp25/DOC.	Levies	Livestock Office
10.	Decree SK No. 036/2001 and Regulation No. 7/2000	Permits to operate public transport on regular route	<p>Annual tariffs :</p> <ul style="list-style-type: none"> <li>1 to 8 seats Rp25,000</li> <li>9 to 25 seats Rp30,000</li> <li>26 and above seats Rp35,000</li> </ul> <p>Annual tariff by type of vehicle:</p> <ul style="list-style-type: none"> <li>Taxi Rp30,000</li> <li>Automated tricycle Rp5,000</li> <li>Other vehicle Rp3,000</li> </ul> <p>Irregular route permit Rp10,000</p>	Levies	Transportation Office (DLLAJ)
11.	Decree SK No. 038/2001, Decree No. 39/2000 and Regulation No. 21/2000	Regular vehicle inspection	<p>Inspection tariffs for four or more than four-wheel vehicles:</p> <ul style="list-style-type: none"> <li>Inspection fee Rp10,000</li> <li>Administration fee Rp3,000</li> <li>Inspection book Rp4,000</li> <li>Stickers Rp4,000</li> <li>Painted inspection label Rp2,500</li> <li>Repainting label (in case damaged) Rp20,000</li> </ul> <p>Inspection tariffs for three-wheel vehicles:</p> <ul style="list-style-type: none"> <li>Inspection fee Rp3,000</li> <li>Administration fee Rp1,500</li> <li>Inspection book Rp4,000</li> <li>Stickers Rp4,000</li> <li>Painted inspection label Rp2,500</li> </ul> <p>Consultation fee for technical condition inspection:</p> <ul style="list-style-type: none"> <li>Four-wheel truck cab Rp25,000</li> <li>Wagon Rp20,000</li> <li>Motor bicycle Rp10,000</li> </ul>	<p>Levies</p> <p>Due to bribery many complained that the inspection is ineffective.</p>	Office of Communication (DLLAJ)
12.	Decree No. 032/2000, Decree No. 039/2001, and Regulation No.	Health and slaughter of livestock inspection	<p>Tariffs for health inspection:</p> <ul style="list-style-type: none"> <li>Cow, buffalo, horse Rp10,000/each</li> <li>Goat, sheep Rp5,000/each</li> <li>Pig Rp7,000/each</li> <li>Poultry Rp50/each</li> </ul> <p>Tariffs for slaughter inspection:</p>	Levies	Livestock Office

No	Number of Decree and Regulation	Titles	Contents	Notes	Tax collecting Agency
	14/2000		<ul style="list-style-type: none"> <li>▪ Cow, buffalo, horse Rp15,000/each</li> <li>▪ Goat, sheep Rp5,000/each</li> <li>▪ Pig Rp7,000/each</li> </ul> <p>Slaughter during special religious holidays is not levied</p>		
13.	Decree No. 040/2001 and Regulation No. 22/2000	Fishery business	<p>Annual tariffs: fish cultivation</p> <ol style="list-style-type: none"> <li>1. In public waters (lakes) Rp5,000/4 m2</li> <li>2. In stream waters (rivers) Rp10,000/50m2</li> <li>3. In small size ponds Rp0.5/m2</li> <li>4. Pet fish Rp100/m2</li> </ol> <p>Annual tariffs: Fish and shrimp cultivation:</p> <ol style="list-style-type: none"> <li>1. In simple (low tech.) pond Rp1.0/m2</li> <li>2. Medium technology pond for shrimp Rp3.0/m2</li> <li>3. Medium technology pond for fish Rp1.5/m2</li> <li>4. High technology pond for shrimp Rp7.5/m2</li> <li>5. High technology pond for fish Rp3.0/m2</li> <li>6. Newly constructed simple pond Rp2.5/m2</li> <li>7. Newly constructed high tech pond Rp10.0/m2</li> </ol> <p>Annual tariffs: hatchery for fish and shrimp</p> <ol style="list-style-type: none"> <li>1. Capacity &gt; 1 million fishes Rp0</li> <li>2. Capacity &lt; 1 million fishes Rp100,000</li> <li>3. Capacity &gt; 1 millions shrimps Rp250,000</li> <li>4. Capacity 1 to 2 millions shrimps Rp300,000</li> <li>5. Capacity more than 2 million shrimps Rp500,000</li> </ol> <p>Tariffs for fishing pond Rp50,000/year</p> <p>Tariffs for collecting, packaging, and selling fish is Rp50,000/year</p> <p>Yearly tariffs for fishing activities:</p> <ol style="list-style-type: none"> <li>1. Boat with Purse Seine Rp30,000</li> <li>2. Boat with Seine Net Rp20,000</li> <li>3. Boat with Gill Net Rp15,000</li> <li>4. Boat with Line Fishing Rp25,000</li> <li>5. Boat with Trap Rp10,000</li> <li>6. Boat with Dredge Rp10,000</li> <li>7. Boat with Scoop Net Rp20,000</li> <li>8. Boat with Long Bag Seine Net Rp20,000</li> <li>9. Boat with Lift Net Rp20,000</li> <li>10. Boat with Carrier Boat Rp25,000</li> <li>11. Tow Net Fishing tools Rp350,000</li> <li>12. Processing of ocean produce Rp100,000</li> </ol>	Levies	Fishery and Marine Affairs Office
14.	Decree No. 078/2001 and Regulation No. 8/2000	Disturbances/Noise	<p>Disturbances: establishing business activities outside authorized areas that may create inconveniences or discomfort for others.</p> <p>Local governments provide annual permits to carry out business but the owner should pay the levies:</p> <ul style="list-style-type: none"> <li>▪ Retribution tariffs are based on location and size of building or stand</li> <li>▪ Retribution tariffs are also based on type of business activities:</li> </ul> <p>Building constructors (contractors):</p> <ol style="list-style-type: none"> <li>1. Small scale level 2 Rp500,000</li> <li>2. Small scale level 1 Rp750,000</li> <li>3. Medium scale Rp2,000,000</li> <li>4. Large scale Rp3,000,000</li> </ol> <p>Consultant services:</p> <ol style="list-style-type: none"> <li>1. Small scale Rp500,000</li> <li>2. Medium scale Rp750,000</li> <li>3. Large scale Rp1,000,000</li> </ol> <p>Material suppliers:</p>	<p>Levies</p> <p>Valid only for one year. Before regional autonomy era, valid for five years.</p>	Economic Affairs Sections

No	Number of Decree and Regulation	Titles	Contents	Notes	Tax collecting Agency
			1. Small scale level 2 Rp500,000 2. Small scale level 1 Rp750,000 3. Medium scale Rp1,000,000 4. Large scale Rp2,000,000 ▪ Tariffs for renewal registration is 75% of the previous tariff ▪ New companies located in the previously permitted premises pay only 75% of levies paid by the previous companies located in that premises.		
15.	Decree SK No. 085/2001 and Regulation No. 12/2000	Inspection and control of the availability of fire extinguishers	Every company, business stands or areas should have fire extinguishers with a license issued by local government. Imposed levies by local government are for: ▪ Registration fee Rp40,000 ▪ License – valid for five years Rp200,000 ▪ Retribution for activities producing flammable products (oil, rubber, gas, chemicals).. Rp400/m2 of total plant area ▪ Retribution for activities producing non flammable products .. Rp200/m2 of total plant area ▪ Retribution for selling non-flammable products ..... Rp150/m2 of premises area	Levies	Public Works and Mining Agencies
16.	Decree No. 084/2001 and Regulation No. 18/2000	Legalization of forest product documents (SKSHH)	To prove that the forest products have been extracted by legal means, local governments provide legalization document called SKSHH. Tariffs for acquiring documents/m3: ▪ Processed wood Rp3,000 ▪ Unprocessed wood Rp10,000 ▪ Rubber wood Rp1,000 ▪ Processed rubber wood Rp2,000	Levies	Forestry Agency
17.	Decree No.086/2001 and Regulation No. 15/2000	Permit to extract or use forest by-products	Tariffs: ▪ Rattan 3%/kg/market price ▪ Resin 3%/kg/market price ▪ Sandalwood 3%/kg/market price ▪ Mangrove 5%/kg/market price ▪ Unclassified wood Rp10,000/m3	Levies	Forestry Agency
18.	Decree No. 024/2000, Decrees SK No. 087/2001 and Regulation No. 6/2000	Inspection or control of liquid waste	Tariffs: a. Residential houses Rp2,000/month b. Shopping centers and offices Rp3,000/month c. Restaurant and coffee shops Rp3,500/month d. Small-scale factories Rp150,000/year e. Large factories Rp500,000/year f. Factories using hazardous substances (B3) Rp600,000/year g. Piggeries Rp750,000/year h. Poultry farms Rp600,000/year i. Hotels Rp300,000/year j. Hospitals Rp480,000/year k. Clinics Rp240,000/year l. Warehouses Rp360,000/year	Levies	Provincial Environmental Impact Control Agency (Bapedalda)
19.	Decree No. 029/2000, Decrees SK No. 020/2001, and Regulation No. 11/2000	Permit to use local government assets (land, buildings, roads, vehicles, etc.)	Tariffs and structures: <b>1. Cars/vehicles:</b> a. Crane Rp40,000/trip b. Ambulance within the city Rp20,000/trip c. Ambulance out of the city Rp1,000/km d. Funeral car within the city Rp40,000/trip e. Funeral car out of the city Rp800/km <b>2. Heavy machinery:</b> a. Steam roller 2-5 ton Rp30,000/day b. Steam roller 8 ton Rp35,000/day c. Steam roller 8 – 10 ton Rp40,000/day	Levies	Transportation Office (DLLAJ) and Public Works Office

No	Number of Decree and Regulation	Titles	Contents	Notes	Tax collecting Agency
			d. Steam roller 10 – 12 ton Rp45,000/day e. Tire roller (Bomag) Rp50,000/day f. Sprayer (Asper) Rp55,000/day g. Compressor Rp60,000/day h. Excavator Rp65,000/day i. Grader Rp150,000/day j. Loader (shovel) Rp200,000/day k. Compactor Rp25,000/day l. Finisher Rp200,000/day m. Tyre Roller (FTR) Rp100,000/day n. Vibrator (Bomag) Rp150,000/day o. Shovel (Becho) Rp200,000/day p. Skid Loader Rp50,000/day q. Steam Motor (Asper) Rp75,000/day r. Water Trunk Truck Rp50,000/day s. Dump Truck Rp50,000/day t. Gasoline water pump Rp10,000/day u. Diesel water pump Rp15,000/day v. Cement Mixer Rp40,000/day w. Vibrator Rp10,000/day x. Roller 0,7 Rp25,000/day y. Road painting machine Rp50,000/day z. Welding machine Rp25,000/day aa. 1-ton Trailer Rp10,000/day bb. Detector Cable Rp50,000/day cc. Asphalt cutter Rp25,000/day  <b>3. Buildings:</b> a. Pendopo hall Rp75,000-Rp100,000/day b. Meeting room Rp50,000-Rp75,000/day c. Marah Halim hall Rp50,000-Rp75,000/day d. Lodging without food Rp3.000/night e. Chair Rp500/each  <b>4. Out-door sites/fields:</b> a. For party/music show Rp100,000/night b. For nursery/agriculture Rp50/m2/3months c. Vendors Rp1,000-Rp1,500/ m2/day  <b>5. Local government housing:</b> a. Within Bupati's office area Rp2,500,000/month b. Kecamatan Health Service Center area Rp150,000/month c. Kecamatan office area Rp250,000/month  <b>6. Use of road by /use of special category road:</b> a. Goods vehicle 2.30 tons Rp1,000 b. Goods vehicle 2.35 to 7.5 tons Rp2,500 c. Goods vehicle 7.51 to 12.0 tons Rp3,500 d. Goods vehicle 12.1 to 14.0 tons Rp4,500 e. Large trucks 14.1 to 23.0 tons Rp10,000 f. Temporary road closure for business Rp50,000/day g. Temporary road closure for party Rp25,000/day h. Temporary road closure for social activities Rp10,000/day  <b>7. Temporary storage or stock piling of construction materials</b> a. On first class road (hot-mix) Rp2,000/m2/day b. On second class road Rp1,500/m2/day c. On pedestrian way Rp1,000/m2/day d. On road side Rp500/m2/day e. On dyke Rp1,000/m2/day		

No	Number of Decree and Regulation	Titles	Contents	Notes	Tax collecting Agency
			<p>8. Construction of access road to business areas or residential drive ways:</p> <p>a. To shopping centers Rp45,000/m</p> <p>b. To residential areas Rp7.500/m</p> <p>9. Construction of river banks and rice field banks using <i>parit beronjong</i> and <i>cerocok</i> concrete, and other types of construction :Rp35.000/m</p> <p>10. Construction and permanent covering of banks with concrete slaps for business activities in accordance with city planning :Rp35.000/m</p> <p>11. Construction and installation of man-holes (per site):</p> <p>a. On first class road (hot-mix) Rp200,000</p> <p>b. On second class road Rp150,000</p> <p>c. On pedestrian way Rp100,000</p> <p>d. On road side Rp50,000</p> <p>12. Levies on man-hole repair:</p> <p>a. On first class road (hot-mix) Rp150,000</p> <p>b. On second class road Rp75,000</p> <p>c. On pedestrian way Rp50,000</p> <p>d. On road side Rp50,000</p> <p>14. Use of public property for pipe or cable installation:</p> <p>a. Under first class road (hot-mix) Rp1,000/m/year</p> <p>b. Under second class road Rp500/m/year</p> <p>c. Under pedestrian way Rp700/m/year</p> <p>d. Under road side Rp350/m/year</p> <p>15. Use of public property to install poles:</p> <p>a. Electricity poles Rp1,000/pole/year</p> <p>b. Telephone poles Rp750/pole/year</p> <p>16. Tree-felling in public areas:</p> <p>a. <u>Mahoni</u> trees with a volume of up to 1 M3 Rp100,000/M3</p> <p>b. <u>Mahoni</u> trees with a volume above 1 M3 Rp150,000/M3</p> <p>c. <u>Kelumpung</u> trees up to 1 M3 Rp50,000/M3</p> <p>d. <u>Kelumpung</u> trees above 1 M3 Rp75,000/M3</p> <p>e. <u>Pule</u> trees up to 1 M3 Rp25,000/M3</p> <p>f. <u>Pule</u> trees above 1 m3 Rp50,000/M3</p>		

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